

A COMPARATIVE ANALYSIS OF THE TURKISH NAVY
AND THE U.S. NAVY BUDGETING PROCESSES

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by

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A Comparative Analysis of the Turkish Navy and the U.S. Navy
Budgeting Processes

by

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ABSTRACT

This thesis presents an overview of the budgeting process including the planning, programming, and budgeting (PPB) phases in both the U.S. Navy and the Turkish Navy. It provides the information necessary for a basic understanding of PPB functions and their components or phases, management structures and procedures, and the major legislation and regulations involved in the budgeting process.

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I. INTRODUCTION

This thesis presents an overview of the budgeting process including the planning, programming, and budgeting (PPB) phases in both the U.S. Navy and the Turkish Navy. It provides the information necessary for a basic understanding of PPB functions and their components or phases, management structures and procedures, and the major legislation and regulations involved in the budgeting process.

It also provides a comparative discussion of the problems encountered in the budgeting process by both Navies and recommends general solutions for these problems.

The above is discussed in five chapters. Chapter III discusses the three phases of the U.S. Navy budgeting process: planning, programming, and budgeting. Chapter V discusses the Turkish Navy budgeting process utilizing the same format. Chapter VI provides a comparison of both Navy budgeting processes, a discussion of problem areas and recommended solutions, and finally conclusions.

II. HISTORY OF THE BUDGETING PROCESS IN THE UNITED STATES

To place the Planning-Programming-Budgeting System (PPBS) in proper perspective requires a quick glimpse into the past to identify, first, why an alternative procedure was necessary and, second, what was hoped to be gained by development of the new management system.

The following historical events and acts have had an effect on the evolution of the manner in which federal resources are allocated and/or the U.S. Navy Budgetary Process.¹

* 1789 - Treasury Act: It established the Department of the Treasury.

During the 1800's, the Congress developed a methodology of federal finance.

* 1906 - Anti-Deficiency Act: It established federal statutes 3678 and 3879. These two laws were revised later and, under name of Revised Statutes (R.S.) 3678 and R.S. 3679, are in effect today.

We will review these two laws in more detail later.

* 1921 - Budget and Accounting Act: This act was an important cornerstone in the evolution of the budgetary process.

Before 1921, Congress played a key role in making the hard choices of allocating scarce national resources between

¹This information is primarily drawn from and is based on reference (11).

the common defense and general welfare. The executive branch simply put the budget together and sent it to the Congress. For more than a century the real federal budgetary power resided almost exclusively in Congress. Late in that period, however, rising federal spending, inefficiency and waste, heightened the pressures of World War I, resulted in increasing dissatisfaction with established arrangements. Finally, after years of political unrest and change, the Budget and Accounting Act of 1921 broke with tradition by legislating the concept of the executive budget. Under this concept the President presents an explicit administrative and fiscal program to be acted on by Congress, and Congress returns a definite enactment to be executed by the President. To strengthen the President's capability for budget formulation, the act created a Bureau of the Budget. At the same time, to facilitate congressional budget oversight, the act created a General Accounting Office as an auditing arm of Congress. In the years since its passage, the act has proven to be a durable reform, and subsequent changes in the federal budget process have generally been built on its foundations. These changes, however, have tended to concentrate even more budgetary power in the Chief Executive, while fragmenting it in Congress.

* The National Security Act of 1947: It provides for a comprehensive program for the future security of the United States through the establishment of integrated policies and procedures for the departments, agencies and functions of the

government relating to national security.

* 1949 - National Security Act Amendments: These created DOD and Department Comptrollers, and authorized Working Capital Funds.

* 1950 - Budget and Accounting Procedure Act: It required departments to establish accounting systems, meeting the requirements of the Comptroller General, and strengthened the audit role of the General Accounting Office (GAO).

* 1956 - Public Law 84-863

1. Required government agencies to install accrual accounting "as soon as practical."

2. Requires consistency in budget and accounting classifications.

3. Forerunner of Resource Management Systems (RMS).

During the 1960's, there were further developments in the budgetary process. Most important of these was the emergence of the PPBS concept.

During the years prior to 1961, financial management and military planning seemed to be worlds apart since each was treated as an independent activity, the first under the jurisdiction of the Comptroller and the second under the jurisdiction of the Joint Chiefs of Staff and the planning organizations of the Military Departments.

Planning by the Military Departments and the JCS was accomplished in terms of military force and major weapon system requirements projected over a period of from five, ten or even twenty years. Conversely, budgeting was accomplished

in terms of pre-organized financial categories acceptable to Congress as representative of an approved budget submission format. Budgeting was projected, however, for only one year.

It was quite apparent that planning and budgeting were on different wave lengths. Military plans were being prepared with little regard to resource constraints, and the costs of the developed plans were always far in excess of any budget the administration could hope for or was willing to request from Congress. For the most part the order of priority of forces, weapon systems and activities was left to each Military Service. At the Department of Defense level this took on the appearance of service competition. It was not surprising, therefore, that serious imbalances developed in the overall Department of Defense Plan.

The presentation of both separate plans and separate budgets to the Secretary of Defense did not provide him with an integrated rationale justifying the budget requests. Expedient choices and decisions on forces and weapon systems necessarily were made without adequate information as to total cost implications, cost-effectiveness relationships in terms of the missions forces were designed to perform, and/or without benefit of review of alternative plans. Decisions made under these circumstances, that had long-term resource implications, many times led to overcommitment. Later these decisions resulted in uneconomical program "stretch-outs" or often outright cancellations of systems or equipment on which large sums of money had already been expended.

The budget, on the other hand, while still necessary for the management of certain classes of Defense activities, i.e., military personnel, operation and maintenance, procurement, and so forth, did not focus on the key decision-making areas of principal concern to top management in the Department of Defense. For example, the budget process did not provide a means to make an alternative choice of major weapon systems in relation to military tasks and missions at the DOD level and above. It could not produce the data or information needed to relate the costs of weapons to their military effectiveness, nor did it disclose the life time spectrum of proposed programs since its own time horizon was generally limited to one year.

Technological advances, military streamlining and the sophistication of weapon systems all played a major role in the pattern of events leading up to the introduction of the PPBS. There had long been a tendency in the Department of Defense to state U.S. military requirements in absolute terms without reference to the eventual costs. The effectiveness or military worth of any given weapon system or force unit could not logically be considered in relation to its costs, and, where there were financial restraints, to the alternatives to which the approved resources might otherwise be put. Or to put it another way, the fact that military requirements are meaningful only in terms of benefits to be gained in direct relation to their costs was not acknowledged.

Notwithstanding the weaknesses already mentioned, there was a persistent area that may have been the most critical weakness of the pre-PPBS operation. This was its inability to provide, on a systematic basis, sound cost estimates for individual weapon systems and force units for any period beyond the budget year. Without this kind of information, decision makers were without basis for judging the relative costs and military effectiveness of alternative programs. The need for such information was particularly acute in instances where major weapon system conception, development, procurement and final deployment demanded long lead-time consideration and time-phased cost projections. Coupled with this weakness was the lack of a systematic way to inform top management of the current status of inter-related Department of Defense programs in order that corrective action might be taken in a timely manner when and if required.

The above paragraphs outline the apparent weakness of the pre-PPBS operation and, therefore, identify the "why" requirement for a new system. The "what" that was hoped for in implementing PPBS was the incorporation of stability into the decision-making process by providing a bridge between the existing "planning" and "budgeting" systems. It is appropriate, here to provide a sketch of the beginning of the DOD programming system in 1961.

When Robert S. McNamara became the Secretary of Defense in January 1961, Charles J. Hitch became his

Comptroller. Mr. Hitch was immediately confronted with the monumental task of directing the financial management effort of the biggest business in the world. He did not come unprepared. Under the auspices of the Rand Corporation, he had developed some detailed thoughts on the subject of financial management in the Department of Defense and had articulated these ideas in a book entitled, "The Economics of Defense in the Nuclear Age." The Comptroller suggested to the Secretary of Defense that he would like to put his ideas into operation for a trial period and, if they proved successful, extend them later to a fully operational status. The Secretary was so convinced regarding the efficacy of these ideas that he directed a revised financial management system be implemented in time to be used in the budget formulation process in the fall of 1963. Through the outstanding support of the Military Departments, a programming system was developed in approximately six months.

The basic concept of the programming system is to bridge the gap between the multi-year military planning system and the one-year budget system. This is accomplished through systematic approval procedures that "cost out" force requirements for financial and manpower resources five years into the future, while at the same time displaying forces for an additional three years. This gives the Secretary of Defense, the Congress, and the President an idea of the impact present day decisions have on the future defense posture and costs.

In the two years following the introduction of the DOD programming system many modifications and refinements were made. A computerized data base was established, new reports were added, and other reports were modified or deleted. These two years were considered a necessary adjustment period, with the Military Departments in some cases modifying their management systems to accommodate the DOD Programming System, but in other instances the Programming System was changed to agree with existing management systems.

The changes that were made to accommodate the DOD Programming System can be summarized as follows:

(1) Management functions were centralized.

(2) A dynamic and analytical approach aimed at costing various program alternatives was initiated.

(3) PPBS provided the basis for a standardized planning and programming system for all of the armed services (and even other governmental agencies).

(4) All of the military departments, the Office of Secretary of Defense (OSD), and the Office of Management and Budget (OMB) became involved in the preparation process of the PPBS.

* Congressional Budget and Impoundment Control Act of 1974 (CBICA).

This act is of major importance in the development of the budgeting process. It helps Congress to deal more effectively with the executive branch on budget matters. To improve internal capability for developing Congressional

budget policy, the act created a Budget Committee in both houses and supported them with a professionally staffed Congressional Budget Office. As a matter of convenience, Congress shifted the fiscal year beginning date from 1 July to 1 October. In addition, the act tied a firm timetable to a new budget review process. The ensuing discussion examines these features in more detail.

The essence of the act is contained in the following declaration of its purpose: "the Congress declares that it is essential --

- (1) to assure effective congressional control over the budgetary process;
- (2) to provide for the congressional determination each year of the appropriate level of federal revenues and expenditures;
- (3) to provide a system of impoundment control;
- (4) to establish national budget priorities; and
- (5) to provide for the furnishing of information by the executive branch in a manner that will assist the Congress in discharging its duties." [22,A7]

The key provisions of CBICA are that it:

- (1) Established House and Senate Budget Committees.
- (2) The Congressional Budget Office with professional staff to assist Budget Committees and other congressional committees.
- (3) Established a new fiscal year - 1 October to 30 September - beginning in fiscal year (FY) 1977 with a transition period from 1 July 1976 to 30 September 1976.
- (4) Provided for congressionally established total budget outlays, budget authority and revenue and debt

projections on a periodic basis.

(5) Requires "year ahead" submission of authorization estimates, e.g., FY 1977 authorization estimates were to be submitted in May 1975 vice January 1976.

(6) Required five year budget estimates - budget year plus four.

(7) Required the provision of a "current services" budget in advance of the President's budget to reflect outlays and budget authority for current fiscal year program levels and underlying economic assumptions (inflation, pay raises, and so forth).

(8) Directed establishment of a federal system of standardized data and information for budget and programs.

(9) Provided for Congressional control over the impoundment of funds by the President. /22,A87

III. REVIEW OF THE U.S. NAVY PLANNING, PROGRAMMING, AND BUDGETING SYSTEM

The steps of the planning, programming, and budgeting process are summarized briefly below.²

(1) Collect intelligence.

(2) Prepare a detailed assessment of the threats to U.S. security, an evaluation of present and future enemy capabilities, and an estimate of enemy intentions. The threat calculation is a combined effort of the National Security Council (NSC), the Joint Chiefs of Staff, various intelligence agencies, and the OSD.

(3) Based on the threat assessment, devise a force structure to meet that threat (divisions, wings, ships, and so forth). Cross-service force structure decisions are to be made at the OSD level, primarily through the use of systems analysis methods.

(4) Force structure decisions and OSD-approved programs then become the basis for service budget request submissions. The "basic" budget request is simply a costing-out of the approved force structure and related programs. The "addendum" budget request consists of proposed service modifications of approved programs, an appeal or reclama of OSD decisions, and new service proposals.

²This section has been drawn from and is based on reference (5).

(5) The OSD (Comptroller), in cooperation with other OSD units, next reviews service submissions, concentrating primarily on a review of the estimates of the cost elements for OSD-approved programs. What is at issue, at this point are the cost estimates of approved programs, not program details.

(6) The budget submitted by the Secretary of Defense to the President consists of initial service submissions covering the approved force structure and programs, with reviewed and revised unit costs, plus any subsequent program modifications suggested by the services and accepted by OSD.

(7) The DOD PPBS operates on an 18-month cycle; however, the system is recycled annually and an overlap results. This means simultaneously budgeting for one year, programming for the following year, and planning for succeeding years.

A. THE PLANNING PHASE

Planning, the first phase of the PPBS process, starts with the assessment of the threat to the security of the U.S. and, when combined with national policy, culminates in the development of force objectives to assure the security of the U.S. The force objectives are limited to forces in being and projected capabilities of research and production to provide forces in the future.³

For the conduct of national security affairs, there are organizations which operate outside of the DOD and the PPBS,

³This section has been drawn from and is based on reference (10).

but which have an impact upon the planning and composition of the armed forces.

Two committees, one established by public law - the National Security Council (NSC) - and the other, established at the request of the Secretary of Defense - the Defense Program Review Committee (DPRC) - exert a considerable influence during the planning phase. The purpose of the NSC is to coordinate the security policy of the U.S. The purpose of the DPRC is to review major defense issues requiring presidential decision. Major defense issues are interpreted to include only those select and broad national policy matters in which the highest level military, political and economical considerations are involved.

One of the major roles of the defense establishment is to support the foreign policies of the U.S. In time of peace this means to prepare for conflict and to maintain forces ready for a variety of contingencies. The forces emphasize readiness for the contingencies thought most likely to occur in order to deter potential adversaries or to defeat them should deterrence fail.

Maintaining a state of peace is the central objective of U.S. foreign policy. However, the specific contingencies that may threaten the peace or other U.S. interests are far less clear, as is the desired balance of the varied interests of the U.S. Such uncertainties mean that it is impossible to tie precisely alternative foreign policy objectives to alternative military force structures.

There is some agreement on the major components of both threats and interests:

(1) Nuclear war with the Soviet Union is one contingency for which the U.S. prepares. The probability of such a war is presumed to be low so long as the U.S. is able to inflict unacceptable damage on the USSR after having absorbed a massive nuclear strike.

(2) Another contingency that plays a major role in determining force structure is large-scale war against the Warsaw Pact in Europe. If large-scale land war in Europe is not a real possibility, then perhaps other and smaller forces are called for, to cope with other contingencies. If there were to be large-scale war, would it immediately involve nuclear weapons? The answer to this question can greatly change ideas about the desirable structure of the major portion of U.S. general purpose forces.

(3) The greatest uncertainties, however, stem from the enormous variety of other possible contingencies. U.S. forces may be called upon to fight against many possible adversaries and in a variety of locales. How much - if anything - the U.S. should invest in forces specialized for use in areas other than those perceived to be of importance to the defense of the U.S., or for use against paramilitary or terrorist threats, depends on how serious those threats are judged to be against the security of the U.S.

In short, the planning concept is to assess the world situation (friend and foe) at prescribed future time periods,

to determine technical capabilities that will be available and/or required to formulate military strategy to counter threats in the national security, and to state force objectives to satisfy the national strategy.

No fiscal constraints have been introduced up to this point in the planning phase.

1. The Joint Chiefs of Staff (JCS) Involvement in the Planning Phase

In the context of the PPBS annual cycle, planning is initiated with the submission of the Joint Strategic Planning Document (JSPD) by the JCS.⁴

The UCS are charged with certain responsibilities in the fields of strategic, operation, and logistic planning. The JCS are also responsible for the review, approval, and execution of operation plans prepared by the unified and specified commands. To discharge those responsibilities the JCS have developed what is known as the Joint Strategic Planning System (JSPS). As part of the JSPS, the JCS promulgate a series of seven documents, as follows:

(1) Joint Intelligence Estimate for Planning (JIEP): Describes situations and developments throughout the world that could affect U.S. security interests in the short- and mid-range periods.

(2) Joint Long-Range Estimative Intelligence Document (JLREID): Summarizes factors and trends in world power rela-

⁴This section has been drawn from and is based on reference (10).

tionships and assesses the capabilities of important foreign nations.

(3) Joint Long-Range Strategic Studies (JLRSS):

Source document delineating JCS concepts concerning the role of U.S. military power in the long-range period as well as outlining broad strategic implications which should be considered in studies, estimates, appraisals, policies, plans and research and development objectives.

(4) Intelligence Priorities for Strategic Planning

(IPSP): Establishes comprehensive military intelligence subjects, targets and priorities for the short- and mid-range period.

(5) Joint Long-Range Strategic Appraisal (JLRSA):

Consolidates estimative intelligence, U.S. strategic forecasts, broad force structuring implications and probable issues.

(6) Joint Strategic Planning Document (JSPD): Con-

tains a concise, comprehensive military appraisal of the threat to U.S. interests and objectives worldwide; a statement of recommended military objectives derived from national objectives; and the recommended military strategy to attain national objectives. A summary of the JCS planning force levels which could successfully execute, with reasonable assurance, the approved national military strategy is included, as well as views on the attainability of these forces in consideration of fiscal responsibility, manpower resources, material availability, technology and industrial capacity.

The JSPD also provides an appraisal of the capabilities and risks associated with programmed force levels, based on the planning forces considered necessary to execute the strategy, and recommends changes to the force planning and programming guidance where appropriate.

(7) Joint Strategic Capabilities Plan (JSCP): Provides guidance to the Commanders of the Unified and Specified Commands and the Service Chiefs for the accomplishment of military tasks, based on military capabilities, conditions, and programmed force levels. Allocates the programmed forces to the Unified and Specified Commanders for planning purposes based on the case scenarios in the current C.G.

The foregoing JSPD documents are supported by the following service planning documents:

(1) Marine Corps Long-Range Plan (MLRP): This document presents the Marine Corps concepts in support of the JLRSS.

(2) Marine Corps Mid-Range Objectives Plan (MMROP): This document summarizes the roles, missions and force objectives of the Marine Corps in support of the JSPD.

(3) Navy Capabilities Plan (NCP), and

(4) Marine Corps Capabilities Plan (MCP): These two documents provide Navy and Marine Corps guidance in support of the JSCP.

(5) Navy Support and Mobilization Plan (NS&MP): This document provides policy and guidance for the logistics support of approved and mobilized forces and for the phased

expansion of the Navy upon mobilization.

The time period relationships of each document are given in Figure II and Figure III. The policies and procedures governing the operation of the Joint Strategic Planning System (JSPS) are promulgated in JCS Memorandum of Policy Number 84 (MOP-84).

2. Other Planning Documents

During the planning phase of the PPBS, the following memoranda set forth strategic planning and policy guidance upon which the development of force objectives is to be based:

(1) Study Plan (SP): This document outlines a series of studies and responsibilities aimed at correcting analytical deficiencies made apparent in drafting the Consolidated Guidance (CG).

(2) Department of the Navy Planning and Programming Guidance (DNPPG): This document transmits Secretary of the Navy planning and programming guidance to the Department of the Navy as part of the PPBS process.

(3) CNO Policy and Planning Guidance (CPPG): This document transmits the essence of the SECDEF's policy and planning guidance as it applies to the Navy, along with the CNO's amplification of this guidance, his goals and priorities to the JCS.

(4) CNO Program Analysis Memoranda (CPAM): This document provides an in-depth analysis of each major task and support category, and alternatives as to how best to accomplish the goals of the CPPG. It is structured for

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| JPSP | <u>A/</u> 1 APR 79 | | JPSP | | | | | | | | | | | | | | | | | | | |
| ISPD | <u>C/</u> NOV 78 | | ISPD | | | | | | | | | | | | | | | | | | | |
| JPAM | <u>C/</u> JUN 79 | | JPAM | | | | | | | | | | | | | | | | | | | |
| JSCP | <u>D/</u> 1 MAR 79 | JSCP | | | | | | | | | | | | | | | | | | | | |

* CFY - CURRENT FISCAL YEAR (EXAMPLE FOR FY78)

- A/ IN SUBSEQUENT PLANNING CYCLE YEARS, THE PUBLICATION TARGET DATES FOR THE JIEP, JPSP AND THE FISCAL YEARS IN THE SHORT - MID - , AND LONG - RANGE PERIODS SHOULD BE ADVANCED 1 YEAR EACH YEAR. THE TARGET DATE FOR JIEP FY 81 - 90 IS 1 JUNE 1979
- B/ NEW DOCUMENT TO REPLACE JLREID AND JLRSS WILL BE PUBLISHED IN 1978. THEREAFTER, REPLACEMENT DOCUMENT TO BE PUBLISHED QUADRENNIALLY BEGINNING IN 1980.
- C/ PUBLISHED ANNUALLY IN ACCORDANCE WITH OSD SCHEDULE. ISPD SUPPORTING ANALYSIS PUBLISHED BIENNIALLY
- D/ UPDATED ANNUALLY TO REFLECT SUBSTANTIVE CHANGES. PUBLISHED BIENNIALLY, VOLUMES I AND II AND ANNEXES B AND J PUBLISHED SIMULTANEOUSLY.

Figure I

Source: Department of the Navy Programming Manual (OPNAV-90P-1E)

NAVY AND MARINE CORPS PLANNING SYSTEM (PLANS AND DOCUMENTS) FOR THE FY 1980—1981 PLANNING CYCLE A

| PLAN/STUDY | PUBLICATION UPDATE | SHORT RANGE PERIOD A/ | MID-RANGE PERIOD A/ | | | | | | | | | | LONG RANGE PERIOD A/ | | | | | | | | | |
|--|---|-----------------------------|---------------------|-----|-----|-----|-----|-----|-----|-----|------|------|----------------------|------|------|------|------|------|------|------|------|--|
| | | | 81 | 82 | 83 | 84 | 85 | 86 | 87 | 88 | 89 | 90 | 91 | 92 | 93 | 94 | 95 | 96 | 97 | 98 | | |
| | | | * CFY + 2 | + 3 | + 4 | + 5 | + 6 | + 7 | + 8 | + 9 | + 10 | + 11 | + 12 | + 13 | + 14 | + 15 | + 16 | + 17 | + 18 | + 19 | + 20 | |
| NAVY CAPABILITIES PLAN (NCP) | CONTINUOUS | NCP | | | | | | | | | | | | | | | | | | | | |
| NAVY SUPPORT & MOBILIZATION PLAN (NS&MP) | CONTINUOUS | NS&MP | | | | | | | | | | | | | | | | | | | | |
| MARINE CORPS LONG - RANGE PLAN (MLRP) | REVIEW/REVISE EVERY 5 YEARS ANNUAL REVIEW | | | | | | | | | | | | MLRP 89 - 98 | | | | | | | | | |
| MARINE CORPS MID - RANGE OBJECTIVES PLAN (MMROP) | JUN / JUL | | MMROP FY 80 - 88 | | | | | | | | | | | | | | | | | | | |
| MARINE CORPS CAPABILITIES PLAN | CONTINUOUS | MCP | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | |

* CFY - CURRENT FISCAL YEAR (EXAMPLE FOR FY78)

A/ IN SUBSEQUENT PLANNING CYCLE YEARS, THE PUBLICATION TARGET DATES SHOWN AND THE FISCAL YEARS IN THE SHORT, MID AND LONG-RANGE PERIODS SHOULD BE ADVANCED ONE YEAR EACH YEAR

Source: Department of the Navy Programming Manual (OPNAV-90P-1E)

Figure II

decision-making.

(5) Consolidated Guidance (CG): This document is the authoritative statement of fundamental strategy, issues and rationale, as well as the guiding document for the services and defense agencies in the preparation of their Program Objective Memoranda (POM). It replaces the former Defense Guidance (DG), the Planning and Programming Guidance (PPG), and the Fiscal Guidance (FG) with a single document. (See Figure III)

The CG covers the issues and rationale for each area of the defense program, with specific guidance as appropriate. It provides military strategy and fiscal guidance, with three budget levels identified: Minimum, Basic, and Enhanced. The CG consists of the following sections:

- (1) Strategic nuclear forces
- (2) Theater nuclear forces
- (3) General purpose forces
- (4) Manpower
- (5) Logistics
- (6) Communications, command and control, and intelligence
- (7) Research and Development
- (8) Forces by geographical areas
- (9) Forces by types

The CG as it pertains to programming is discussed further under the Programming Phase.

PLANNING PHASE, PPBS

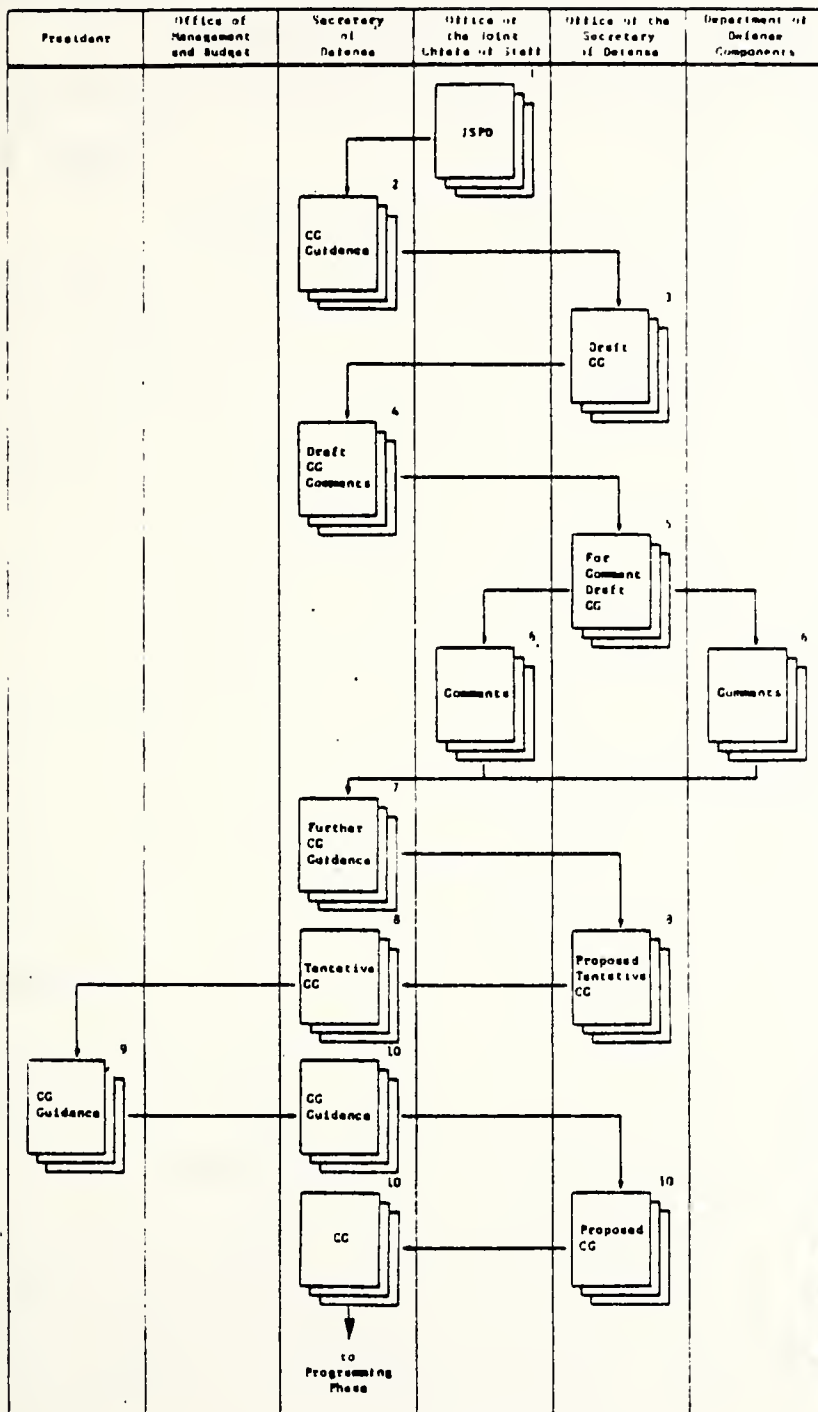


Figure III

Source: Fiscal and Life Cycles of Defense Systems, General Dynamics.

3. Events and Time Schedule /14,6/

The events and their time schedule for FY 1980 in the planning phase (Figure I) are as follows:

1. October 1978 - The planning phase starts with the issuance, by JCS, of the Joint Strategic Planning Document (JSPD).

2. November 1978 - the Chairman of the JCS and the DOD Component Heads meet with the Secretary of Defense (SECDEF) to suggest key features of the Consolidated Guidance (CG), after which the SECDEF formulates his guidance for the first draft of that document.

3. January 1979 - Using the SECDEF's guidance, the Office of the SECDEF (OSD) prepares a first Draft CG.

4. January 1979 - The first Draft CG is reviewed by the SECDEF who provides his comments to the OSD.

5. January 1979 - The SECDEF's comments are used by the OSD to revise the Draft CG into the For Comment Draft CG, copies of which are provided to the JCS and the DOD components.

6. February 1979 - The JCS and the DOD components review the For Comment Draft CG and provide their comments.

7. February 1979 - After SECDEF has had a chance to review their comments, the SECDEF meets with the CJCS and the DOD Component Heads to discuss their comments. Based on this meeting, the SECDEF provides his further guidance on the CG.

8. March 1979 - Using SECDEF's further guidance, OSD revises the For Comment Draft CG into the Tentative CG, a copy of which is sent by the SECDEF to the President.

9. March 1979 - After his review of the Tentative CG, the President meets with the SECDEF and the CJCS to discuss his guidance on the CG.

10. March 1979 - The SECDEF uses the President's guidance to have the Tentative CG revised by the OSD, which after review and approval by the SECDEF becomes the CG. This is the end of the planning phase.

B. THE PROGRAMMING PHASE

Prior to 1961, despite many innovations and reforms in the financial management of the Department of Defense and the separate military services, the Department of Defense did not integrate military planning with resource requirements. Each service department presented to the OMB and Congress separate budgets vice one overall DOD budget. In addition, the requirements for resources (appropriations) were organized in terms of activities or functions (such as "construction") rather than by major military or strategic objectives. Consequently, detailed breakdowns were in terms of these same budget appropriation categories, and there was no method for transposing the conventional budget codes into a meaningful identification of resources required to meet major national security objectives.

Prior to the 1960's, although both planning and budgeting functions had been accomplished separately, a programming

concept had never been developed. Therefore, there was a gap between the planning and budgeting processes. After PPBS was developed in the 1960's programming bridged this gap. Therefore, it can be said that the development of the PPBS concept is synonymous with the development of the programming concept in DOD. The programming structure of DOD is derived from the strategic doctrine that distinguishes between general war and limited war, and from the view that the use of large strategic weapons for limited purposes is unthinkable. It implies that one of the main programming tasks is to achieve the most effective balance between strategic and limited war forces.

The program structure has two primary aims: first, to permit analysis of the total force structure for all of the services in terms of common missions, or national objectives; second, to project the resource impact (or financial requirements) of the proposed force structures over an extended period of years.

In developing the program structure the following criteria should be considered: /23,17/

1. An important criterion for a program structure is that it should permit comparison of alternative methods of pursuing an imperfectly determined policy objective. Even though objectives may be clearly defined, there are usually alternative ways of accomplishing them. Thus, in the DOD the Airlift and Sealift program has been designated as a separate program largely because a transportation requirement

can be satisfied by various combinations of air and sea transport.

2. Programs may consist of a number of complimentary components, none of which can be effective without the others.

3. A separate program may be needed where one section of an organization supplies services to several others. For example, economies are to be expected if a command maintains a single computer operation rather than having separate ones in each department.

4. An organization's objectives may require it to adopt overlapping structures. This need is evident in foreign affairs, where both geographical and functional programs are required.

5. A further criterion relates to the time span over which expenditures take effect. The uncertainties of the future usually preclude firm estimates of requirements for government services beyond a limited period, say five years.

1. The Programming Structure of the U.S. Navy

The basic purpose of the programming phase is to translate Department of the Navy approved concepts and objectives into a definitive structure expressed in terms of time-phased resource requirements including personnel, monies and materials. This is accomplished through systematic approval procedures that "cost out" force objectives for financial and manpower resources five years into the future, while at the same time displaying forces for an additional

three years. In other words, the programming process consists of an eight-year force structure and a five-year financial program in terms of major forces, dollar costs, and manpower. This gives the SECDEF and the President an idea of the impact that present day decisions will have on future postures.

The encounter with the political realities concerning that share of the national budget that can be expected to be allocated to national defense necessitates quantitative analysis in a variety of forms; this is at the heart of the programming phase. The basic prerequisite for quantitative analysis is sound data; more specifically, sound data concerning the effectiveness (relative if not absolute) and costs for the myriad of man-machine systems that are candidates for the constrained force structure. Given sound data, analysis may be performed in order to select the "best" set of competing man-machine systems. Thus, a simplified definition of the programming phase is an annual iterative process that (1) establishes the dollars to be allocated and introduces other resource constraints such as manpower, and (2) determines the particular constrained mix of man-machine systems that "best" satisfies the defense posture expressed in the planning phase.

a. Major Program Classifications

The program structure consists of two major layers. At the top are a relatively few major programs. At the bottom are a great many program elements. A major

program is defined to be a collection of program elements serving a common set of objectives.

The primary purpose of the classification of major programs is to assist top management in the allocation of scarce resources. The U.S. Navy program structure corresponds to the principal objectives of the organization. It is arranged to facilitate making decisions having to do with the relative importance of these objectives. Stated another way, it focuses on the organization's outputs -- what it achieves or intends to achieve - rather than on its inputs - what types of resources it uses, or on the sources of its funds. (A structure that is arranged by types of resources (e.g., personnel, material, services) or by sources of support is not a program structure.)

The designation of major programs helps to communicate what the objectives of the organization are. The program structure should not necessarily correspond to the existing categories on which decisions are based; rather, it should correspond to those categories which can reasonably be expected to be useful for decision making in the future.

The DOD program structure is depicted in the Five Year Defense Program (FYDP). The FYDP is the document that records, summarizes and displays the decisions that have been approved by the SECDEF as constituting the DOD's program. It is a management tool that keeps management informed of what has been accomplished in the past and what is to be

accomplished in the future to support national strategy decisions.

The FYDP structure is designed as an operating tool of the DOD manager. To accomplish this, it includes an identification of homogenous force data and support data aggregated and displayed in a way that assists in the decision-making process in the DOD. This is done by building the program structure on a foundation of mission and support related programs. Ten major programs currently comprise the FYDP structure used to display approved programs, and as evidenced by the following titles, identify broad areas of both mission and support:

- Program 1 - Strategic Forces
- Program 2 - General Purpose Forces
- Program 3 - Intelligence and Communications
- Program 4 - Airlift and Sealift
- Program 5 - Guard and Reserve Forces
- Program 6 - Research and Development
- Program 7 - Central Supply and Maintenance
- Program 8 - Training, Medical and Other General
Personnel Activities
- Program 9 - Administrative and Associated
Activities
- Program 0 - Support of Other Nations

Major programs can be classified as either (a) direct or (b) support. Direct programs are those directly related to the organization's objectives. Programs 1, 2, 4 and 5 are considered as direct programs because they are

force related (force mission). Support programs are those that service more than one other program. Programs 3, 6, 7, 8 and 9 are considered as support programs. Program "0" essentially stands by itself. In making decisions about the allocation of resources, management's attention is focused primarily on the direct programs. Within limits, the amount of resources required for the support programs is roughly dependent on the size and character of the direct programs. This does not mean that no attention should be given to support programs, for there is often considerable room for innovation and increased efficiency within support programs.

b. Program Elements (PE)

Major programs are subdivided into program elements. The program element is the basic building block of the FYDP. It is defined as "an integrated combination of men, equipment and facilities which together constitute an identifiable military capability or support activity. 9,A107 It identifies the mission to be undertaken and the organizational entities to perform the mission. Elements may consist of forces, manpower, materials, services, and/or associated costs as applicable. The PE's may be aggregated to display the total resources assigned to a specific program; they may be aggregated to families of weapons and support systems within a program; or they may be aggregated to select only identified resources, such as operating costs. They may be aggregated in one way for programming purposes, in another way for budget reviews, and still in another way as necessary

for management purposes. PEs should also be structured so as to facilitate benefit/cost analysis; that is, the activity represented by the program element should, if feasible, be an activity for which there is a plausible relationship between benefits and costs.

The PE concept allows the operating manager to participate in the programming decision process since both the inputs and outputs are stated and measured in PE terms. The manager receives meaningful decisions and is able to communicate these decisions to lower echelons more effectively by use of the PE. The example on the following page depicts the program structure of the Navy.

A Program Category is a classification of similar or related program elements by major function. The use of program categories permits the classification of program elements independently of the program structure, and program categories may be used to aggregate functionally related program elements across program lines.

A Budget Activity is a kind of allocation basis for appropriations. Allocations are divided into four quarters in this classification.

c. Documentation

The programming phase of the DOD PPBS cycle commences with the promulgation of the Consolidated Guidance (CG). /10, III-17

Consolidated Guidance (CG): As mentioned in the planning phase, the CG provides the framework upon which the

SAMPLE PROGRAM ELEMENT

| PROGRAM | CATEGORY | BUDGET ACTIVITY | ELEMENT | SERVICE | |
|---------|----------|--------------------|---------|---------|--|
| 6 | 3 | 5 | 09 | N | <u>SERVICE</u> |
| | | | | | A - Army N - Navy M - Marine Corps F - Air Force |
| | | | | | <u>ELEMENT</u> Represents the serial number, in combination with the first three digits, to identify a specific program element |
| | | | | | <u>BUDGET ACTIVITY</u> 1 Research (Military Sciences) 2 Aircraft and Related Equipment 3 Missiles and Related Equipment 4 Military Astronautics and Related Equipment 5 Ships, Small Craft and Related Equipment 6 Ordnance, Combat Vehicles and Related Equipment 7 Other Equipment 8 Management and Support |
| | | | | | <u>CATEGORY</u> 1 Research 2 Exploratory Development 3 Advanced Development 4 Engineering Development 5 Management and Support 6 Operational Systems Development |
| | | | | | <u>PROGRAM</u> 1 Strategic Forces 2 General Purpose Forces 3 Intelligence and Communications 4 Airlift/Sealift 5 Guard and Reserve Forces 6 Research and Development 7 Central Supply and Maintenance 8 Training, Medical and Other General Personnel Activities 9 Administration and Associated Activities 0 Support of Other Nations |

JCS, Military Departments and the Defense Agencies develop their fiscally constrained programs.

Beyond the procedural purpose, the CG serves as an authoritative statement of the fundamental strategy issues, and rationale underlying the defense program, as seen by the leadership of the DOD. The intent is not only to inform but also to encourage and to shape debate and dialogue on the critical issues facing the United States in the areas of national security.

The CG is also intended to provide and elaborate on essential national security objectives, allocate those resources realistically assumed to be available, and establish a balance between combat forces and material support readiness.

The CG includes:

Policy and Force Planning Guidance,

Fiscal Guidance,

Material Support Planning Guidance,

POM Submission Guidance, and

Other Additional Planning Guidance as required.

Defense Policy and Force Planning Guidance (DPPG):

The Defense Policy Guidance sets forth the basic concepts, principles and objectives which comprise the assumptions upon which the FYDP is to be structured. The DPPG provides further detail for force planning.

The purpose of the DPPG is to provide definitive policy and force planning guidance on which defense planning and programming are to be based. It sets forth alterations and modifications to policies and planning guidance contained in earlier guidance reflecting changes in national security policies and force sizing objectives directed by the President or the SECDEF. This guidance is based upon the JSPD, as amended to reflect decisions made by the President or those made by the SECDEF. All defense planning and programming is carried out in conformity with this guidance until specifically amended or superseded.

Fiscal Guidance: The Fiscal Guidance serves as the financial basis for the five-year programs to be developed by the Military Departments and the Defense Agencies. These programs are submitted to the SECDEF in the form of Program Objectives Memoranda (POMs). The POMs must conform to the specific guidance and fiscal levels outlined in the CG.

The Fiscal Guidance specifies the manner of the allocation of the resources which may be assumed realistically to be available to the Department of Defense. The Fiscal Guidance identifies specific Total Obligational Authority (TOA) and/or amount of outlay by fiscal year for each military department and defense agency. Further, certain Defense Planning Programming Categories are identified for particular fiscal constraint. These identified areas are called "fenced" areas. The Fiscal Guidance may specify a lower or

upper limit or provide a precise control for the "fenced" area.

Material Support Planning Guidance (MSPG): The MSPG provides guidance for planning material support, within fiscal constraints, that is consistent with the national strategy. It also provides a framework and instructions to the services to explicitly describe the actual material support capability that would result from the programs they proposed in their POMs.

The MSPG is intended to ensure, within the Fiscal Guidance constraints, a reasonable balance between combat forces and material support capabilities for U.S. forces and those of selected allies. It is further intended to require an efficient allocation of resources between new procurement and maintenance of existing assets.

Preparation and Format Instructions (PFI): The PFI is designed to ensure that POMs provide an adequate description of the proposed programs and forces, the rationale for proposing these forces and programs, the readiness of those forces and the extent of their capabilities to support Navy strategy, together with an assessment of the risks involved.

Other Additional Planning Guidance: The SECDEF identifies specific geographical areas of potential conflict. For these areas, the CG details the assumptions that are designed to ensure that DOD plans are consistent and adequate to provide the President the options he needs.

Based on the CG, each service develops a Program Objective Memorandum (POM).

Program Objectives Memorandum (POM): The Department of the Navy POM is the Secretary of the Navy's annual recommendation to the SECDEF for the detailed application of Department of the Navy resources. The POM is developed within the constraints imposed by the Secretary of Defense's Fiscal Guidance, contained in the CG, to satisfy all assigned functions and responsibilities during the period of the Five-Year Defense Program (FYDP). The POM is the instrument through which programming under fiscal constraints is implemented. It is also used as the primary means for requesting revision of the SECDEF approved programs as published in the FYDP. Specific procedures for developing each POM submission are provided annually in the form of POM Serials issued by Navy Program Planning (OP-90).

The POM represents a comprehensive and detailed expression of the total resource requirements associated with the total commitment of the DON. An assessment of the risks and military advantages of the proposed programs, as measured against those currently approved in the FYDP, must be addressed to the DOD.

Joint Program Assessment Memorandum (JPAM): The JPAM provides a risk assessment of the composite POM force recommendations, including the views of the JCS on the balance and capabilities of the overall POM force and support levels to execute the approved national military strategy and

on the allocation of scarce resources. The JPAM is prepared and submitted annually by the JCS to the SECDEF within 30 days of POM submission. Following submission to the SECDEF, the JPAM is used in the preparation of Issue Papers and, ultimately, the Program Decision Memorandum.

The JPAM is developed in memorandum format and includes the following:

(1) An assessment of the capabilities and associated risks represented by the composite POM force.

(2) The views of the JCS on the balance of recommended military service force and support levels.

(3) Recommendations, where appropriate, on actions to achieve improvements in overall defense capabilities within the alternate funding levels directed by the SECDEF.

(4) A SALT-constrained strategic force with recommendations on the nuclear weapons stockpile required to support this force.

(5) Advice on the security assistance program.

(6) A mobility force analysis.

Following review of the service POMs and the JPAM, the SECDEF issues Program Decision Memoranda.

Program Decision Memoranda (PDM): Program

Decision Memoranda are the means by which the decisions resulting from his review of the service POM submissions are promulgated by the SECDEF to the JCS and the service secretaries. As a prelude to the promulgation of the PDM, program issues related to force levels, system acquisition and

rates and levels of support are addressed by the OSD and service staffs. SECDEF decisions resulting from this review process are promulgated in the PDM. Major issues identified in the PDM are discussed by the service chiefs, service secretaries and SECDEF. Decisions and reconsideration of prior decisions are promulgated as Amended Program Decision Memoranda (APDM). Thus, most of the major decisions are completed in time for the preparation of the budget submissions which are due annually in mid-September. The APDM is followed by normal budget review and budget decisions (Decision Package Sets (DPS)); all of which culminate in the completion of the SECDEF's portion of the President's Budget in early January.

Separate PDMs are issued to each military department and defense agency. Upon receipt, each PDM is distributed within the Department of the Navy for review and comment for potential reclama of the tentative SECDEF decisions.

d. Events and Time Schedule

The events in the programming phase and their FY 1980 time schedule are depicted in Figure IV as follows:

[14,8]

1. May 1979 - using the CG as guidance, the DOD componets prepare their POMs.

2. June 1979 - based on the POMs, the JCS prepares and issues the JPAM.

3. June 1979 - after review of the POMs and the JPAM, the OSD prepares and issues a set of Draft Issue Papers.

4. June 1979 - the JCS, DOD components, the NSC

PROGRAMMING PHASE, PPBS

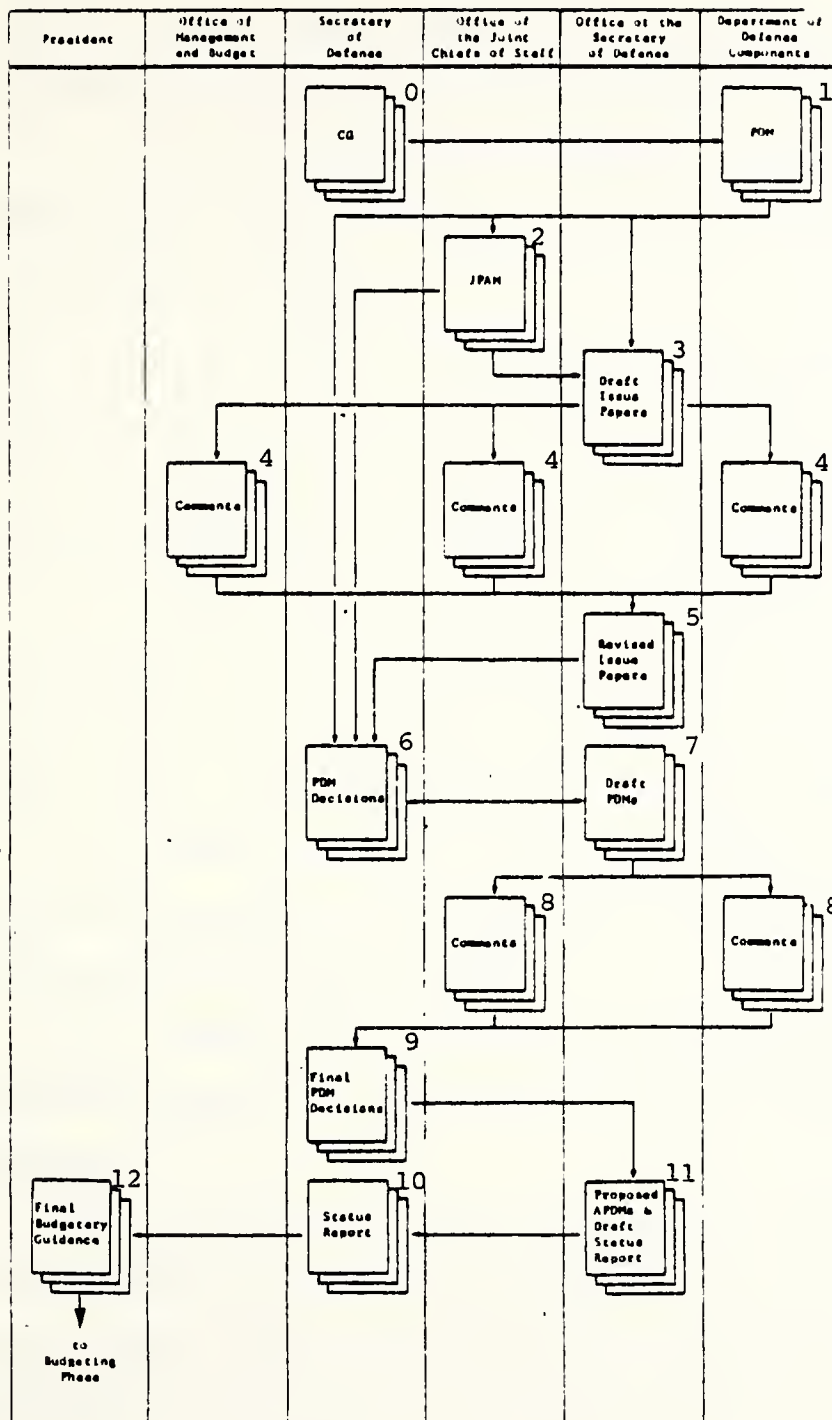


Figure IV

Source: Fiscal and Life Cycles of Defense Systems, General Dynamics

and the OMB review the Draft Issue Papers and provide comments.

5. July 1979 - based on the various comments received, the OSD revises the Issue Papers as necessary.

6. July 1979 - after reviewing the Issue Papers, the POMs and the JPAM, the SECDEF meets with OSD staff members to formulate the PDMs.

7. July 1979 - the SECDEF's decisions are incorporated into the OSD Draft PDMs and reviewed by the SECDEF.

8. August 1979 - the JCS and the DOD components review the Draft PDMs and provide their comments.

9. August 1979 - After he has had a chance to review the various comments, the SECDEF holds a series of meetings with the JCS and the DOD component heads to discuss any issues, after which he makes his final PDM decisions.

10. August 1979 - based on the SECDEF's final PDM decisions, OSD prepares the proposed Amended PDMs (APDMs) and a draft Presidential Status Report.

11. August 1979 - once the SECDEF is satisfied with the Status Report, he approves it and forwards a copy to the President.

12. August 1979 - after reviewing the Status Report, the President meets with the SECDEF and the JCS to provide his final guidance for the upcoming budget estimate preparations.

C. THE BUDGETING PHASE

The budget process is the final phase in the Planning-Programming-Budgeting cycle. The annual budget expresses the financial requirements necessary to support the approved Navy and Marine Corps programs which were developed during the preceding phases of planning and programming. The approved programs are those which evolve from incorporating all decisions documents received through a predetermined date announced in the annual Program/Budget review schedule memorandum. It is through the budget that planning and programming are translated into annual funding requirements. Each year's budget estimate, therefore, sets forth precisely what the Department of the Navy expects to accomplish with the resources requested for that year.

The characteristics of the Navy budget are:

1. The budget is a means of two-way communication. For it to be most effective in this role, budget preparation begins at the very lowest levels of responsibility within the activity. Planning and guidance come from the top down, the budget from the bottom up. It is an iterative process with built-in feedback loops.

2. Budget preparation includes an analysis and forecast of the levels of activity which can be maintained subject to the dollar and civilian personnel constraints which are specified in the budget call. Just as important as what can be done is the estimate of what cannot be done, and what the budget preparers feel should be accomplished in order to

carry out their missions. This is expressed in a prioritized list of unfunded requirements, which is submitted with full justification along with the budget.

3. Essential to effective budgeting is the principle that the lines of budget submission and approval must follow the lines of organizational responsibility, both within the organization and in the external chain of command.

4. A well-conceived and managed budgeting process should be consistent with Management by Objectives (MBO). MBO is a management plan which has received considerable attention over the past years and has been implemented in many Navy activities.

5. One of the roles of the budget is a measure of performance or effectiveness of the command as a whole, of each cost center and sub-cost center within the command, and of the responsible managers.

6. It is essential that the budget be dynamic and flexible, as opposed to a mechanical submission of warmed-over previous year figures, if it is to be useful as a command plan. The Navy budget reflects a current list of prioritized command objectives.

7. It is a primary vehicle for decision-making.

8. It is the most effective financial plan and cost control document.

The budget process is divided into three phases:

- (1) Budget Formulation,
- (2) Budget Justification, and

(3) Budget Execution.

1. Budget Formulation

Budget Formulation encompasses planning and developing the budget for the fiscal year which commences one year from the next 1 October. The formulation phase begins when the Comptroller of the Navy issues a call for budget estimates from major claimants.⁵ This call is based on guidance received from the Assistant Secretary of Defense (Comptroller), ASD(C), about 15 June. The formulation phase continues with review, modification, and approval of the estimates at all echelons of the DON and with review, amendment, and final approval by the Secretary of Defense, the Office of Management and Budget, and the President. Some of these procedures and organizations are reviewed below in further detail.

a. Office of Management and Budget (OMB):

The Budget and Accounting Act of 1921 also established the Bureau of the Budget placing it in the Treasury Department but under the immediate direction of the President. Under reorganization Plan I of 1939, the Bureau was transferred to the Executive Office of the President, where it is located today as the Office of Management and Budget (OMB).

⁵A major claimant is a bureau, office, or command designated as an administrating office under the O&MN appropriation which receives an operating budget directly from the CNO (OP-92).

The OMB is the President's immediate staff office charged with responsibility for developing the budget of the United States Government. It has authority "to assemble, correlate, revise, reduce or increase the estimates of several departments and establishments." [21,81] Under this authority, the OMB issues instructions for budget preparation and gives the budget its final review before it goes to the President for signature and presentation to the Congress.

(1) OMB Instructions. Among the instructions issued by the OMB is Circular No. A-11, Instruction for the Preparation and Submission of Annual Budget Estimates. While the A-11 requirements are applicable to all agencies of the Government, the DOD each year obtains exceptions to some of its detailed provisions. Exceptions are requested and granted because of the organizational structure of the DOD and because of the simultaneous submission of military department estimates for coordinated review by the OSD and the OMB.

The Circular sets forth such matters as the time for submittal of estimates and general policies on estimates for the budget year and on data for the current and past years (the budget year is the fiscal year for which estimates are submitted; the current year is the fiscal year immediately preceding the budget year; and past year is the fiscal year immediately preceding the current year).

As to the details of budget preparation, Circular No. A-11 explains, with exhibits where necessary,

the material that must be submitted, its arrangement, the number of copies required, and the method of making copies.

The following summary statements are required for each budget submission:

(1) A summary and highlight memorandum which will lead off the agency's budget submission, summarizing the principal highlights of the budget, briefly outlining the objectives and plans on which the estimate is based, setting forth the broad policies that are proposed, and indicating the total amount requested to carry forward these policies.

(2) A multi-year Program and Financial Plan (PFP) that presents in tabular form a complete and authoritative summary of agency programs, including their results and costs and their requirements for new obligational authority for the budget year.

(3) A reconciliation, or bridge, between the PFP and the agency appropriation structure, covering the budget year only.

(4) A statement of agency totals which summarize those sections of the Program and Financing Schedules that set forth the method of program financing and the relation of obligations to expenditures.

(5) Analyses of new obligational authority and expenditures for administrative funds and trust funds.

(6) A statement of receipts showing actual receipts for the past year and estimated receipts for the

current and budget years.

(7) A statement of numbers of personnel, showing total end-of-year employment financed from each appropriation or fund for each of the 3 years covered by the budget.

b. Department of Defense's Involvement in Budgeting

Following approval of the POM, the DOD prepares the Budget Estimates Guidance (BEG) applying to the submission of the Navy Budget. Normally issued in early September, the BEG formalizes essential information already available to the DON through advance coordination. The document explains new requirements initiated by Congress and any requirements imposed by either the OMB or the OSD. Further, it identifies any supplemental requests to be submitted for the current budget year together with items to be considered in the requests. The BEG provides guidance concerning outlay rules and the submission of data to be recorded in the FYDP. It also provides guidance for the use of inflation rates and OSD-level contingency funds (includes requirements to support proposed legislation, pay supplementals, and the like). In addition, the document specifies the level of detail to be provided Congress, for those submissions requiring authorizing legislation.

After the analysis of Budget Estimates is completed, the SECDEF holds a series of budget hearings attended by the DOD components and representatives of the JCS and the OMB. These hearings are used by the SECDEF to formulate his

decisions on the Decision Package Sets.

Decision Package Sets (DPS): The DPSs are the basic decision documents used during the annual budget review. They address the decision packages in the DOD component's submission for a decision unit (or combination thereof) and alternative decision packages. DPSs are analogous to the Program Budget Decision (PBD) document used in the past.

A Decision Package is a brief justification document that includes the information necessary to make judgments on program or activity levels and resource requirements. A series of decision packages is prepared for each decision unit which cumulatively represents the total budget request for that unit.

c. Secretary of the Navy's Involvement in Budgeting

On the basis of the Department of the Navy's analysis of the BEG, the Comptroller of the Navy provides technical guidance and direction, for formulation of the budget, to responsible offices for the various appropriations and funds. This takes the form of the instructions of general and continuing nature published in the Budgeting Submissions Manual as well as the current budget policies promulgated in Volume 7 of the NAVCOMPT Manual. It also includes instructions of a specific nature tailored to considerations of the particular fiscal year(s) being addressed (e.g., budget amendments, supplementals for specified purposes, method of handling price escalation, and special purpose exhibits).

Headquarters components have on hand a Budget Submission Manual containing permanent instructions, which include and supplement OMB Circular A-11 and OSD instructions. The Manual sets forth general principles, policies, and procedures governing preparation of the Navy budget. In addition it prescribes detailed submission requirements for the several stages of the budget cycle, including forms and formats to be used, exhibits, and other supporting material. It also prescribes the nature of the budget justification material. Figure V illustrates the process of the budget call in the DON.

The Comptroller of the Navy, acting for the Secretary of the Navy, issues a call for budget estimates. The call for estimates includes the budget schedule to be followed. Certain dates in the schedule are established by law, as, for example, the beginning and end of a fiscal year and the time for the President's submission of the budget to the Congress. The Secretary of Defense sets the date for submission of Service budgets to his office and usually provides further important dates in the decision making process, up to the date of the OMB submission and printing.

Within the framework of these firm dates, the formulation schedule for the Navy is set by the Comptroller of the Navy. The basic features of the schedule are followed each year, although dates vary somewhat depending upon decisions, the dates of availability of Secretary of Defense guidelines, and other matters affecting budget preparation.

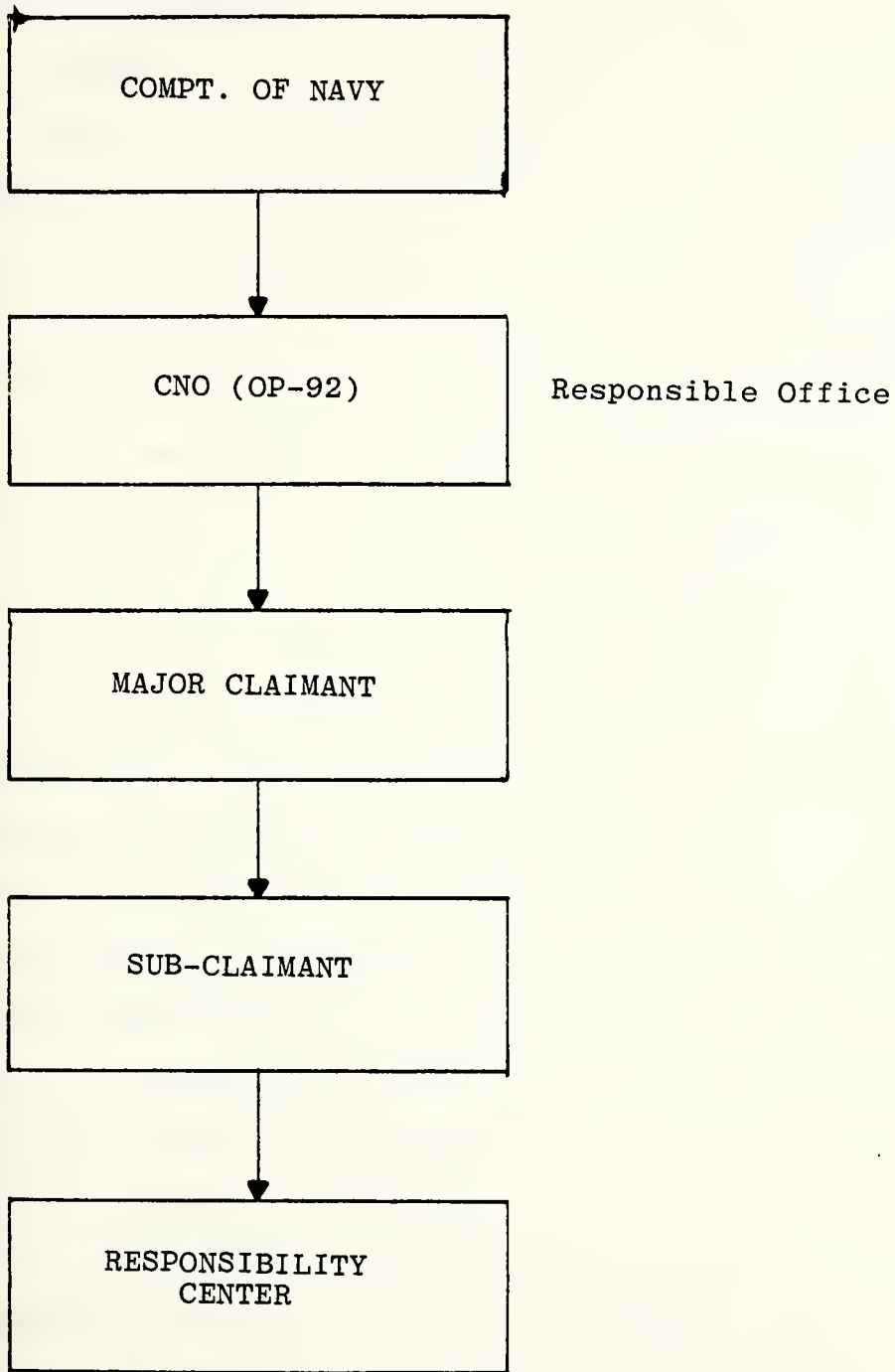


Figure V
The Budget Call Process in the Department of
Navy

Supplementing the Budget Submissions Manual, the Comptroller's budget call establishes dates for various preparation requirements; provides guidance on the basis to be used for making estimates; and sets forth any special provisions applicable to the NavCompt review, the OSD/OMB and Congressional submissions, and requests for the apportionment of the funds appropriated. The guidance usually includes ground rules on the relationship of the estimates to the FYDP for the applicable fiscal years.

d. Headquarters Component Action

Upon receipt of the foregoing initial instructions concerning budget preparation, the major claimants are equipped with the fundamentals upon which to base their estimates of the funds needed to finance their areas of program responsibility. These areas include personnel levels, where appropriate; procurement programs; research efforts; and operating levels of ships, aircraft, and facilities. Based on these inputs to programs, the dollars needed to carry out assigned responsibilities are then computed. Traditionally, two to three months are allotted for the budget to be prepared at the respective headquarters.

e. Responsible Office

Each Navy appropriation is assigned to a single headquarters component for overall management. This includes overall responsibility for budgeting, accounting, and reporting for all programs financed by the appropriation. The component having such an assignment is known as the "respon-

sible office." The Director, CNO Fiscal Management Division (OP-92), is the responsible office for all Navy appropriations, except Research, Development, Test and Evaluation (RDT&E) and the Marine Corps appropriations. He is the comptroller for the CNO. The Assistant Secretary of the Navy (Research and Development) is responsible for RDT&E.

f. Responsibility Center

A Responsibility Center is usually an activity with a distinct "Unit Identification Code" (UIC) and is subject to Revised Statutes (R.S.) 3678 and R.S. 3679. Each Responsibility Center is provided, usually by message shortly after the budget call, with annual planning figures for the years under consideration. Called control numbers, control figures, or annual planning figures, the planning figures are stated in terms of dollars for activity operations and numbers of civilian and military personnel.

The control numbers are derived from the DOD budget after it has been presented to Congress in January; however, the figures may be changed by message as the major claimant gets guidance from CNO based on how the appropriations bill is faring on the Hill.

In each headquarters component there is a division that performs financial management (comptroller) functions. Usually it is from this division that program managers and others obtain the financial policy and guidance needed to prepare their budget estimates. It is here also that the headquarters component budget is usually assembled, and the

budget documents are prepared for submission to the headquarters component commander and higher authority.

Second echelon commands must anticipate by some months the budget climate and submission requirements. They do not have time to wait for guidance to filter down from the top and then ask for field budget input. The interval between POM development and the submission of the budget does not provide sufficient time for field activities to receive final POM decisions and to reflect these decisions in their budget estimates. Accordingly, some adjustment is always made in field estimates by headquarters components to accomplish the late changes directed by the Secretary of Defense in the POM cycle.

Upon review and incorporation of estimates received in response to budget calls, the respective comptrollers forward their consolidated estimates to their headquarters component commanders for review. They then make the adjustments necessitated by the review of the commander and submit their estimates to the next level of review.

g. Activity Level Budgeting

Under the Operating Budget concept of the Resource Management System, as applied to budgeting at the field level, each operating activity (responsibility center) submits a budget which includes information concerning military personnel services. Activities funded under Operating and Maintenance, Navy (O&MN), RDT&EN and the Defense Family Housing Management accounts, all use the Operating Budget concept.

The following explanation of field budget formulation is based on the Operations Navy account which includes O&MN resources. The operating activity is concerned with obtaining funding for consumable resources, including military personnel services, required in day-to-day operations; that is, with developing operating budgets.

Estimates to meet activity-level requirements for non-consumable resources - major procurement items, for instance are developed as prescribed by the cognizant headquarters component under some budget systems.

Operating Budgets provide the plans against which performance can be measured, variances analyzed, and adjustment made as necessary to assure effective, efficient management of resources at all echelons. Operating Budgets are used as the major tool for obtaining, managing and accounting for resources for operating activities, including activities of the operating forces, except those in combat zones.

The manner in which guidance information is promulgated at a particular activity, a person is designated to receive it, and budget actions are delegated to various station components varies with the size and complexity of the activity, and reflects the management policies of the commanding officer, who is responsible for the assignment of local budget responsibilities and has final responsibility for the completed estimates.

h. Large Activity Budget Preparation

Budgeting is usually decentralized at large activities (responsibility centers); that is, those composed of a number of departments (cost centers). At such an activity, the commanding officer normally issues a budget call for the various station components to develop their operating budget estimates and supporting data. In the budget call, he communicates policy decisions, assumptions, and instructions based on the guidance he has received through command channels, together with his projection of local program and workload objectives. He includes information on specific budget procedures; delineations of actions required of each station component in the formulation, summarizations, coordination, and review processes; the schedule for these actions; and the approved flow of budget data from point of origin to review levels.

The commanding officer may appoint a planning board or committee, composed of the activity's principal management officials and the comptroller, to assist in the overall planning, coordination, and review of the budget.

To prevent duplication of effort and to provide for a smooth formulation process, budget responsibilities at a large activity usually are divided between the station's operating departments and the financial (comptroller) staff as follows:

(1) Operating Departments. Because they have authority and responsibility for program accomplishment, performance standards, and work schedules, the operating departments are assigned responsibility for preparing the raw estimates for their departments, reviewing intra-departmental (subcost center) estimates, and justifying their budgets to the commanding officer.

(2) Comptroller's Staff. The comptroller's staff is available for technical guidance on budgeting matters; recommends budget procedures and schedules; provides procedural and analytical assistance to the heads of operating departments; reviews and recommends adjustments in completed departmental estimates to arrive at a balanced station budget; assists in the commanding officer's review as requested; and prepares the budget in finished form for submission to higher review levels.

Both program content and tempo of operations are forecast on the basis of the latest planning guidance available at the outset, in order that a reasonable budget structure can be established before detailed estimates are attempted.

The activity's top management team determines the effects each proposed budget program will have on capacities and develops initial forecasts of requirements to accomplish the programs by answering such questions as: /21,15/ What is the normal capacity of each station component? What will be the effect on each component of changes affecting

personnel requirements? Will existing facilities produce the required quality of work? Will the proposed distribution of work require major internal shifting of personnel? What effect will the proposed program have on requirements for supporting services for each shop?

Identification of the primary limiting factors is essential. Such identification requires: /21,115/

(1) Analyses of the interdependence of the various phases of station operation - that is, which division or function limits the potential of another - production, productive maintenance, public work maintenance, supply, and so on.

(2) Evaluation of the availability of quality of labor in relation to program volume and complexity, including particular skills required and the effect on employment of such things as available housing.

(3) Determination of the optimum production load based on the capacity and scheduled availability of facilities.

(4) Determination of the effect of new workload and funds as indicated in the guidance received.

(5) Determination of workload to be carried over into the budget year.

In preparing his budget, each department head (cost center manager) translates the planning information into appropriate budget elements for each organizational entity or function (subcost center) under his management; that is, for

each such entity/function, he lists the requirements for civilian and military labor, material, contractual services and other elements as appropriate. He then assigns a realistic dollar estimate to each, with the total representing his department's estimate.

Completed departmental (cost center) estimates are usually forwarded to the activity comptroller for analysis and review by his staff. The comptroller then presents them to the commanding officer and offers such recommendations as he considers necessary on the basis of his staff analysis.

The commanding officer must assure himself that the budget gives economic recognition to all known requirements, that the workload planning is valid, and that the estimated costs are fully supportable to higher review authorities. He may approve, disapprove, or modify a departmental request, or the total activity budget on the basis of his own evaluation of program, workload, and priorities. If disapproved or modified the affected departments make the necessary adjustments and resubmit the estimates.

Following final approval by the commanding officer, the comptroller's staff summarizes the total operating budget in functional category and element of expense terms, as prescribed by DOD Instruction 7220.20 [21,115].

When ready for submission to the next level of command, the activity's budget includes an Operating Budget/Expense Report 9NAVCOMPT Form 2168) (Figures VI and VII illustrate completed

NAVCOMPT Forms 2168 for one year) and an Activity Budget/ Apportionment Submission (NAVCOMPT Form 2179-1) (Figure VIII illustrates a completed NAVCOMPT Form 2179-1 for one year). The first form reflects a breakdown by functional/subfunctional category and cost account; the second, a breakdown by functional category and element of expense. Also included are all of the additional data required by higher authority, such as schedules of personnel positions and compensation, statements justifying the planned workload, and an explanation of any requested increase over current funding levels. Each commanding officer describes the alignment of his command's priorities, and includes a statement on his assumptions and the planning base used for his budget.

The above preparation is required whether the responsibility center is large or small.

- i. Budget Formulation at Small Activities

The comptroller or budget office may develop the entire estimate of a small activity, with assistance from operating personnel as required. Although guidance received, pertinent station policy, scheduling, and other applicable planning data must be made known to key station officials, procedures followed in developing the estimate are usually quite simple and direct. Some commanding officers, for example, present such information at regular staff meetings, for question and discussion by key personnel, with handouts containing essential information to be retained by the individuals for reference as needed.

OPERATING BUDGET/EXPENSE REPORT

INTERNAL SUBMISSION

| CONTROLLER | | COMMANDING OFFICER | | BUDGET | | REPORT | | FOR PERIOD ENDING | | |
|------------------------|--------------|-----------------------|------------|--------------------|--------------|-----------------------|--------------------|--|--------------------------|----------------|
| BUDGET YEAR | | BUDGET QUARTER | | APPROPRIATION DATA | | COST CENTER | | REPORTING OFFICER (Signature, rank and date of submission) | | |
| CONTROLLER DEPT. | | | | 179180A.2320 | | CONTROLLER | | 30 JUNE 1974 | | |
| FUND/ SUB-ACCOUNT CAT. | COST ACCOUNT | DESCRIPTION | WORK UNITS | MAN HOURS | | | | | | TOTAL EMPENSES |
| | | | | MILITARY (1) | CIVILIAN (2) | MILITARY SERVICES (3) | CIVILIAN LABOR (4) | MATERIAL AND SUPPLIES (5) | COMMERCIAL CONTRACTS (6) | |
| D1 | LC10 | Administration | 3,069 | 1,300 | 1,450 | 7,200 | 11,500 | 1,500 | 9,000 | 29,200 |
| D1 | LC20 | Internal Review | 27 | 200 | 750 | 800 | 5,000 | 500 | | 6,300 |
| D1 | LC30 | Budget and Statistics | 5,800 | 1,000 | 6,000 | 6,000 | 41,000 | 2,000 | | 49,000 |
| D1 | LC40 | Accounting | 6,825 | 6,100 | 16,000 | 28,000 | 62,500 | 2,000 | | 92,500 |
| D1 | LC50 | Payroll | | 8,000 | 18,000 | 41,000 | 91,000 | 4,000 | | 136,000 |
| D1 | LC10 | Military License | | 1,000 | | 5,000 | | | | 5,000 |
| | | Subtotal "D1" | | 17,600 | 42,200 | 86,000 | 211,000 | 10,000 | 9,000 | 318,000 |
| D2 | LC20 | Internal Review | | | 800 | | 4,000 | | | 4,000 |
| | | Subtotal "D2" | | | 800 | | 4,000 | | | 4,000 |
| | | Total "D" | | 17,600 | 43,000 | 86,000 | 215,000 | 10,000 | 9,000 | 322,000 |

Figure VI
Source: Financial Management in the Navy,
Naval Education and Training Command

OPERATING BUDGET/EXPENSE REPORT

EXTERNAL SUBMISSION

| | | | | | | | | | | | |
|--|--|--------------|--|--------------------|--|--|--|-------------------|--|----------------|--|
| TO: U. S. Naval Activity Washington, D. C. 20390 UIC 66212 | | NAVSUP/ISCOM | | BUDGET | | REPORT | | FOR PERIOD ENDING | | 30 June 1974 | |
| FROM: U. S. Naval Activity Washington, D. C. 20390 UIC 66212 | | NAVSUP/ISCOM | | APPROPRIATION DATA | | REPORTING OFFICIAL OFFICER (Signature, rank and date of issue) | | COST CENTER | | | |
| DESCRIPTION | | UNITS | | MILITARY | | CIVILIAN | | MILITARY SERVICES | | CIVILIAN LABOR | |
| (1) | | (2) | | (3) | | (4) | | (5) | | (6) | |
| 01 1010 Administration | | 3,069 | | 1,300 | | 1,450 | | 7,200 | | 11,500 | |
| 01 1020 Internal Review | | 27 | | 200 | | 750 | | 800 | | 5,000 | |
| 01 1030 Budget and Statistics | | | | 1,000 | | 6,000 | | 6,000 | | 41,000 | |
| 01 1040 Accounting | | 5,800 | | 6,100 | | 16,000 | | 28,000 | | 62,500 | |
| 01 1050 Payroll | | 6,825 | | 8,000 | | 18,000 | | 41,000 | | 91,000 | |
| 01 1010 Military Absence | | | | 1,000 | | | | 5,000 | | | |
| Subtotal "01" | | | | 17,600 | | 42,200 | | 88,000 | | 211,000 | |
| 02 1020 Internal Review | | | | | | 800 | | | | 4,000 | |
| Subtotal "02" | | | | | | 800 | | | | 4,000 | |
| Total "01" | | | | 17,600 | | 43,000 | | 88,000 | | 215,000 | |
| Total "01" | | | | 17,600 | | 43,000 | | 88,000 | | 215,000 | |
| 01 1010 Steam and Hot Water | | 4,280 | | 1,700 | | 3,250 | | 8,000 | | 42,000 | |
| 01 1020 Purchased Electricity | | 1,642 | | 700 | | 2,020 | | 4,000 | | 19,000 | |
| 01 1030 Electricity, Distribution Systems | | 2,320 | | 2,400 | | 8,570 | | 12,000 | | 61,000 | |
| Subtotal "01" | | | | 2,400 | | 8,570 | | 12,000 | | 61,000 | |
| 02 1010 Electricity, Distribution Systems | | | | | | | | | | | |
| Subtotal "02" | | | | | | | | | | | |
| Total "01" | | | | 2,400 | | 8,570 | | 12,000 | | 61,000 | |
| Total "02" | | | | 20,000 | | 51,570 | | 100,000 | | 276,000 | |
| Total Operating Expenses | | | | 20,000 | | 51,570 | | 100,000 | | 276,000 | |
| Less: Anticipated Reimbursables | | | | | | | | | | | |
| Total Direct Expenses | | | | | | | | | | | |
| Change in Unfilled Orders | | | | | | | | | | | |
| Total Direct Operating Budget | | | | | | | | | | | |
| Memo Entries: | | | | | | | | | | | |
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| (2) Naval Obligation Authority | | | | | | | | | | | |
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In developing estimates for the activity's organizational subdivisions or assigned functions, the comptroller consults responsible operating personnel in these areas, to ensure that the data he incorporates reflect realistic forecasts of workload and requirements in relation to total station plans and guidance received.

Upon completion, the centrally developed estimates are reviewed by the commanding officer, who has final responsibility for their validity and for defending them to higher authority. Following any adjustments necessitated by this review, the comptroller consolidates the estimates into a single budget request, arranged as required, for submission to higher commands.

j. Unfunded Requirements

Those programs and functions which cannot be performed within the constraints of the control numbers become unfunded requirements and are generally submitted with the operating budget. Careful preparation of unfunded requirements is one of, if not the most, important parts of budget preparation. Each item on the list must have full justification including the impact which not performing the function will have on the ability of the command to carry out its mission. The list must be prioritized by importance and fully priced.

As a practical matter, the list is limited to only the most important unfunded requirements, but it is inclusive enough to allow several options to the commanding

officer and those who review the list external to the command. How well the list of unfunded requirements is prepared effects the determination of which station gets what percentage of any funds that are allocated later in the year. Cost center managers are similarly motivated to prepare a good list for their internal submission. For this reason, it is critical that the list be maintained with current priorities and prices, and not put together just once a year at budget time.

The heart of the budget is the justification of the programs and tempo of operations which require financing during the budget year.

k. Operating Budget Request Formats

At the small activity level management is based primarily on performance in relation to plans for a given organizational entity. The activity (responsibility center) therefore normally prepares its operating budget in three formats:

(1) By individual cost centers, showing subcost centers and functional/subfunctional categories.

(2) By a composite of all cost centers, with the same breakout as above.

(3) By functional categories and elements of expense.

The NAVCOMPT Form 2168 (Figures VI and VII) is used for the first two of these formats, but they serve different purposes. The individual cost center format is for internal management and control. The composite format is

the activity's budget request to higher authority. Data for the two arrangements are readily available because the cost account code is constructed to relate generally to both an organizational entity and to a functional category.

The functional category/element of expense arrangement is forwarded to higher authority using Activity Budget/ Apportionment Submission Forms (Figure VIII). Unless specified otherwise, three NAVCOMPT Forms 2179-1 are forwarded to show data for the past, current and budget years.

As previously indicated, both the NAVCOMPT Form 2168 (total budget request) and the Form 2179-1 (Figure VIII) are forwarded as part of the budget submission. Following review of the Form 2168, the approving authority forwards a Resource Authorization Form, NAVCOMPT Form 2168-1 (Figure IX) to the activity. If amounts on the Resource Authorization differ from amounts submitted on the Form 2168, the activity must adjust its operating budget accordingly.

1. Budget Review Levels

The total Navy budget is subject to three separate reviews in the Executive Branch - one at the level of the Secretary of the Navy, another at the level of the Secretary of Defense, and the third at the level of the President (OMB).

Because the objectives of the three executive reviews differ, this lengthy and intensive review process is largely concerned with attempting to reconcile different viewpoints as to relative priorities and feasibilities.

RESOURCE AUTHORIZATION

| FROM | | TO | | OF NUMBER | | 68863 | | <input checked="" type="checkbox"/> NEW AUTHORIZATION <input type="checkbox"/> REAUTHORIZATION | |
|------------------------------|------------|--|----------|-----------------------|----------|-------------------------------|------------|---|------------|
| CINCNAVJAG | | U. S. NAVAL STATION ROSA, SPAIN FTO NEW YORK 09540 | | APPROVED BY | | V. F. VanParrett, CAPT USN | | DATE 15 June 1974 | |
| APPROPRIATION NO. 1701804 | | SUBHEAD 6410 | | TOTAL DIRECT EXPENSES | | CHANGES IN UNFULFILLED ORDERS | | TOTAL DIRECT OPERATING BUDGET | |
| QUARTER | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| FIRST | 1,805,000. | 1,805,000. | - 5,000. | - 5,000. | - 5,000. | 1,800,000. | 1,800,000. | 300,000. | 1,500,000. |
| SECOND | 1,600,000. | 1,600,000. | - 0 - | - 0 - | - 0 - | 1,600,000. | 1,600,000. | 300,000. | 1,300,000. |
| THIRD | 1,587,500. | 1,587,500. | - 0 - | - 0 - | - 0 - | 1,587,500. | 1,587,500. | 300,000. | 1,287,500. |
| FOURTH | 1,662,500. | 1,662,500. | - 0 - | - 0 - | - 0 - | 1,662,500. | 1,662,500. | 300,000. | 1,362,500. |
| TOTAL | 6,655,000. | 6,655,000. | - 5,000. | - 5,000. | - 5,000. | 6,650,000. | 6,650,000. | 1,200,000. | 5,450,000. |

(1) OF THE ABOVE AMOUNTS, \$1,200,000. IS AVAILABLE ONLY FOR MILITARY PERSONNEL COSTED AT STANDARD RATES.

(2) OF THE ABOVE AMOUNTS, \$5,450,000. IS EQUAL TO NOA UNDER O&M AND IS SUBJECT TO R. S. 3679, BUT MAY BE INCREASED BY THE AMOUNT OF REIMBURSABLE ORDERS RECEIVED.

(3) NOT LESS THAN \$XXX,XXX.00 OF THE NOA ABOVE IS AVAILABLE FOR MAINTENANCE OF REAL PROPERTY AND FACILITIES.

(4) INCLUDED IN THE AMOUNT FOR NOA IS \$170,000 (EXCLUDING MILITARY PERSONNEL) FOR DISPOSAL FACILITIES.

Figure IX

Source: Financial Management in the Navy, Naval Education and Training Command

At all levels, reviewers face a major problem - to strike a balance between satisfying needs and achieving a budget which will be approved at the next higher echelon. They are normally confronted with estimates which in total exceed the amount they can reasonably expect to receive for programs at their level of review. The budget is based on explicit fiscal guidance controls which cannot be exceeded in total. However, within the total allowed there is flexibility among appropriations. The review process at each level is therefore concerned, both with consistency and economic feasibility, to provide the best possible total program within fiscal constraints.

m. The Chief of Naval Operations/NavCompt Review

The first comprehensive review occurs at the CNO/Assistant Secretary of the Navy (Research and Development) (ASNR&D) level.

Due to the magnitude and complexity of the Navy Budget (less RDT&E), the lack of available time, and the need for in-depth review, joint hearings and joint analyses are made concurrently by two review staffs, the Director of Budget and Reports (NCB) and CNO (OP-92). Resolution of minor issues is accomplished through direct negotiation between the NCB staff and the OP-92 staff. This focuses the formal "mark-up" on significant issues.

For RTD&E the Office of Naval Research (ONR) on behalf of the ASN (R&D) submits the RDT&E budget to NavCompt based upon ASN(R&D) program guidance for review and mark-up.

While appropriation responsibility rests with ASN(R&D), NavCompt and CNO(OP-92) review the RDT&E budget to identify potential interface problems with other Navy appropriation budgets.

NavCompt publishes a mark-up on all appropriation budgets. Reclamas by responsible offices are then entertained, with any resultant, unresolved major differences being resolved by the Director, Navy Program Planning, the Director of Naval Research (DNR) and NCB. If disagreement occurs at that level, the issue is referred to SECNAV for resolution. As firm decisions are reached during the "mark-up"/reclama process, "add-back" items and programs to achieve full utilization of the funds authorized by the fiscal guidance are selected by ASN(R&D)/CNO from lists of approved programs.

n. Comptroller of the Navy Review

The exhaustive review at the level of the Secretary of the Navy is conducted largely by the Office of the Comptroller, the CNO Executive Board, and ONR. The Chief of Naval Material (CNM) also participates in this review and advises on any proposed adjustments in estimates submitted by the six functional commands.

Review by the Office of the Comptroller is conducted through analysis of the estimates and supporting material and informal discussions with representatives of the various headquarters, CMC, CNO, and ONR.

The primary purpose of review by the comptroller is to stress balanced resources, economic feasibility, time

phasing, and other budgetary aspects of programs set forth in the POM.

In reviewing the budget, the Office of the Comptroller is responsible for raising fundamental program questions bearing on the budget and for pointing out the budget implications of the various programs.

o. Comptroller of the Navy Markup

After completion of review by the Comptroller, members of his staff prepare a markup. Upon completion of the markup, the Director of Budget and Reports reviews the recommended changes with the Deputy Comptroller and the Assistant Secretary of the Navy for Financial Management (Comptroller).

Upon approval by the Comptroller of recommendations made by the Director of Budget and Reports, and after such adjustments as the Comptroller may require have been made, the markup is returned to the CNO and to the ONR. Staffs of those organizational components and the Office of the Comptroller then adjust differences between original estimates and the markup. Major differences unreconciled at that stage become the basis for the preparation of reclamation to the CNO on the markup recommendations.

The Comptroller then publishes the NAVCOMPT markup of the Navy estimates.

The NAVCOMPT FY 1980 budget review time schedule was as follows: 4,107

- * Review budget submission from Navy claimants 11 Jul - 1 Aug
- * Conduct budget hearings 14 Jul
- * Distribution of markups 8 Aug - 23 Aug

Reclama actions:

- * Claimant submit reclamas to markups Begin 9 Aug
- * Reclama review begins 12 Aug
- SECNAV Presentation 3 Sept
- * Submission to OSD/OMB 22 Sept

p. Secretary of Defense Review

The review conducted by the Office of the Secretary of Defense (OSD) differs from that conducted within the Navy in that the OSD is concerned with obtaining the best possible balance among all Defense programs as well as individual appropriation requests. This review is concerned with the broad aspects of program requirements and the relationships and pricing of programs and covers programs in considerable detail. Total DOD civilian employment, new program cost-effectiveness, interservice pricing differences, and conformance to DOD fiscal and program guidance are matters of particular interest to the Secretary of Defense.

In the interest of conservation of time, the review by the OSD is usually conducted jointly with that by the OMB. Staff personnel of the two organizations work together and the review is conducted by means of hearings and informal discussions.

Program validity, pricing, and feasibility are the major considerations in the review conducted within the Navy. The OSD nevertheless also subjects the estimates to a thorough examination. In the case of procurement programs, such aspects as pricing, production, scheduling, research and development status, priority of requirements, conformance with established logistics guidance, availability of substitute items, and many other factors are considered and analyzed.

The relative priority of programs is of particular significance in that the markup of the Secretary of Defense reflects determinations of the relative emphasis to be placed on broad areas of effort, such as limited warfare, strategic warfare, and antisubmarine warfare. As would be expected, it is in this area that most differences of opinion develop at top levels.

q. OMB Budget Review

As indicated earlier, review by the OMB may be conducted jointly with review by the OSD (and has been so conducted in recent years). OMB personnel usually participate in the analyses and deliberations which result in the OSD markup. To that extent, the markup is a joint product.

Distinction between the two reviews rests primarily on the fact that, while the two agencies are usually in agreement on the funds required for the vast majority of items in the budget, OMB may not concur fully in the actions taken by the Secretary of Defense on reclaims. In view of

position as a staff agency of the President, the OMB reserves the right to disagree with decisions rendered by the OSD.

The OSD/OMB FY 1980 budget review time schedule was as follows: /4,11/

- | | |
|--|------------------------------|
| * Receive budget submissions from Defense Components | 22 Sept |
| * Conduct budget hearings | 25 Sept |
| * Program/Budget decisions start to SECDEF | 4 Oct |
| Reclama actions | |
| * Components submit reclamationas to Program Budget Decisions | As desired (Begin 13 Nov) |
| * Reclama decisions | 20-22 Nov |
| * Major reclama issue meeting with Service Secretaries | 11-13 Dec |
| * Final draft to SECDEF | As scheduled |
| * SECDEF Discussion with President | 18 Dec |

r. Presidential Review

The Federal budget is often referred to as the President's budget. It represents his views and determination. As finally approved, it is not the Navy's budget, nor the budget of the OSD. It is the President's and its content may or may not be in accord with the views of top personnel within a particular department.

Because the extent and timing of the President's participation in the budget review process varies from year to year, it is difficult to do more than generalize on the extent of his participation. The number of unresolved

defense issues placed before the President normally are few. They usually result from changes in the international situation, changes in program priorities, or in requirements of an urgent nature which have developed since guidance and program objectives were established.

In making final decisions on the Defense budget, the President usually confers with the Director of the OMB, the SECDEF, the JCS, the National Security Council, and others.

Once a final decision has been made on the funds required to carry out the programs of the entire Federal Government, OMB compiles the budget document for printing and presentation to the Congress. As provided by law, the budget must be forwarded within the first 15 days of each regular session of the Congress. The President's budget message to the Congress, which explains the proposed fiscal policy of the Government for the budget year, is included in the printed budgets.

s. Events and Time Schedule

Figure X displays the entire budget formulation phase. The events and their time schedules for FY 1980 in the budgeting phase (Figure V) were as follows: /14,107

1. September 1979 - the President's final budgetary guidance was used by the SECDEF to instruct the OSD on necessary revisions to proposed APDMs, after which they were reviewed and approved by the SECDEF.

| President | Office of Management and Budget | Secretary of Defense | Office of the Joint Chiefs of Staff | Office of the Secretary of Defense | Department of Defense Components |
|---------------------------------------|---------------------------------|---|-------------------------------------|---|---|
| Final Budgetary Guidance ⁰ | | Final Budgetary Guidance ¹ | | | |
| | | Approved AFPMs ¹ | | Revised Proposed AFPMs ¹ | |
| | | | | Budget Estimate Analysis ³ | Budget Estimates ² |
| | | DPS Decisions ⁴ | | | |
| | | | | DPSs ⁵ | |
| | | | Comments ⁶ | | Comments ⁶ |
| | | Final DPS Decisions ⁷ | | Revised DPSs ⁷ | |
| | | Resolve Final Budget Items ⁸ | | | Resolve Final Budget Items ⁸ |
| | | | | Proposed DOD Budget Estimate ⁹ | |
| | | DOD Budget Estimate ⁹ | | | |
| | | to Enactment Phase | | | |

Source: Fiscal & Life Cycles of Defense Systems,
General Dynamics

2. September 1979 - copies of the APDMs were forwarded to the DOD components who used them to prepare their Budget Estimates. APDM copies were also supplied to the JCS.

3. October 1979 - following the Budget Estimates submittal, OSD conducted an analysis of the Estimates.

4. October 1979 - after the analysis was completed, the SECDEF held a series of budget hearings attended by the DOD components and representatives of the JCS and the OMB. These hearings were used by the SECDEF to formulate his decisions on the Decision Package Sets (DPSs).

5. October 1979 - based on the SECDEF's decisions, OSD prepared and issued the annual series of DPSs.

6. October to December 1979 - any disagreements the JCS and/or the DOD components may have had with the DPSs were summarized in comments provided to the SECDEF.

7. December 1979 - based on the various comments received, the SECDEF made his final DPS decisions and had the OSD staff prepare the revised DPSs.

8. December 1979 - any unresolved budget issues remaining at this time were discussed and resolved in a series of joint SECDEF, JCS and DOD component head meetings.

9. December 1979 - at this point OSD finalized the DOD Budget Estimate which, after review and approval by the SECDEF, was submitted to OMB for incorporation into the President's National Budget, leading to the start of the Enactment Phase.

2. Budget Justification and Enactment

After the President submits a Current Services Budget to the Congress in November, the enactment and budget justification phase begins. Figure XI displays the events and their dates in this phase.

Congressional review of the budget normally begins in January each year and continues until appropriations are enacted. The objective of Congressional review is to determine the funds Congress deems necessary to carry out the administration's proposed programs in the most effective and economical manner. The Congressional review is extensive and covers program requirements, relative priorities, and program balances as well as detailed aspects of financing.

Congressional hearings are based on the President's budget and on the justification material submitted in its support. Authorization is required prior to appropriation for a significant portion of the defense programs: specific itemized authorization is required for military construction projects; for major procurement programs such as ships, aircraft, missiles, and tracked vehicles; for military and civilian personnel strengths; and for military student loads.

For each appropriation, the printed budget includes four items:

1. The proposed appropriation language
2. A subdivision of the appropriation by budget activity
3. A brief narrative description of the coverage of the appropriation

The Timetable of the Congressional Budget Process for Any Fiscal Year

| On or before: | Action to be completed |
|------------------------------------|--|
| November 10----- | President submits current services budget. |
| 15th day after Congress meets----- | President submits his budget |
| March 15----- | Committees and joint committees submit reports to Budget Committee. |
| April 1----- | Congressional Budget Office submits report to Budget Committees. |
| April 15----- | Budget Committees report first concurrent resolution on the budget to their Houses. |
| May 15----- | Committees report bills and resolutions authorizing new budget authority. |
| May 15----- | Congress completes action on first concurrent resolution on the budget. |
| 7th day after Labor Day----- | Congress completes action on bills and resolutions providing new budget authority and new spending authority. |
| September 15----- | Congress completes action on second required concurrent resolution on the budget. |
| September 25----- | Congress completes action on reconciliation bill or resolution, or both, implementing second required concurrent resolution. |
| October 1----- | Fiscal year begins. |

Source: Public Law 93-844, Section 500

Figure XI

4. A breakdown of the appropriation by object classification.

The printed budget does not include a significant amount of justification material. Justification books supporting appropriation estimates are submitted separately to the appropriation committees through the OSD. The purpose of the budget justification is to explain and support the estimate to those who review and evaluate the programs and their financial requirements. Budgets are justified orally and, as indicated by the A-11 provisions, by including appropriate data in both the budget document and in justification books supplied to appropriate congressional committees.

DOD components must provide, for each program category, an analysis of changes in program requirements, relating the estimates to the current programs. To supplement the Program Memorandum, additional narrative justification is required to cover the objectives for the budget year; proposed plans for achieving objectives; and derivation of the requested appropriation, showing the relations between the amounts requested and the work to be done.

Agencies are encouraged to confer with OMB representatives in developing justification material and exhibits, not provided for in the instructions, which will most adequately present their programs and financial requirements. Justification books include narrative statements and tabular data such as procurement lists, Selected Acquisition Reports (SAR), congressional data sheets, personnel statistics, and other

data required by the congressional committees or offered by the Navy in justification of its programs. This material is forwarded well in advance of the hearings so that the staff of the subcommittees on DOD appropriations can confer with representatives of the Navy to clarify points raised by reviews of the material and to advise of areas of particular interest to the sub-committees. In addition, briefings on important program areas are provided to committee staff members.

a. Navy Interactions With Congress

A department assigned under the SECNAV is called the "Office of Legislative Affairs" (OLA). Its representatives go to all briefings and witnesses attend congressional committee reviews of legislation including the Navy budget. OLA representatives testify before the committees under certain circumstances, summarize budget data, and answer questions from the committees. The Navy Policy Coordinating Branch (OP-906), which maintains a data base of Navy statistics, helps OLA to answer questions from the Congress. If a detailed request comes from a committee, the Assistant Secretary of the Navy (Financial Management) establishes a contact with a House Appropriation Committee (HAC)/Senate Appropriation Committee (SAC) representative and provides necessary documents. The Chief of Naval Material (CNM) also maintains a legislative office for budget justification purposes.

NAVCOMPT is responsible for supervising and coordinating the presentation and justification of the Navy to the Congress.

b. Enactment Process

Figure XII displays the entire enactment process schematically.

The Constitution requires that the enactment phase originate in the House of Representatives. In both the House and the Senate there is a committee on appropriations, which has various subcommittees. One of these subcommittees in each house is known as the Subcommittee on DOD Appropriations.

While the Congress has the authority to make appropriations available for financing the federal programs requested by the President, the Congress has injected a condition to making appropriations called authorization. The authorization process must precede the appropriation of funds for certain specified purposes. Figure XIII displays the entire authorization process.

Authorization legislation is required for military construction; certain planned procurement; the military training student load; and research, development, test and evaluation. Authorization is also required to prescribe the authorized personnel strength for the Selected Reserve portion of each Reserve component of the Armed Forces, the active duty personnel for each component, and the civilian personnel end-strength for each military DOD agency. Such authorization is within the jurisdiction of the Armed Services committees of the Senate and the House. The authorization act (which is reviewed by line item, amount, and appropriation totals) establishes the maximum amounts that may be appropriated for

DOD BUDGET PROCESS

OCT-DECEMBER JANUARY-JUNE JULY-SEPTEMBER OCT-SEPT: The Budget Year

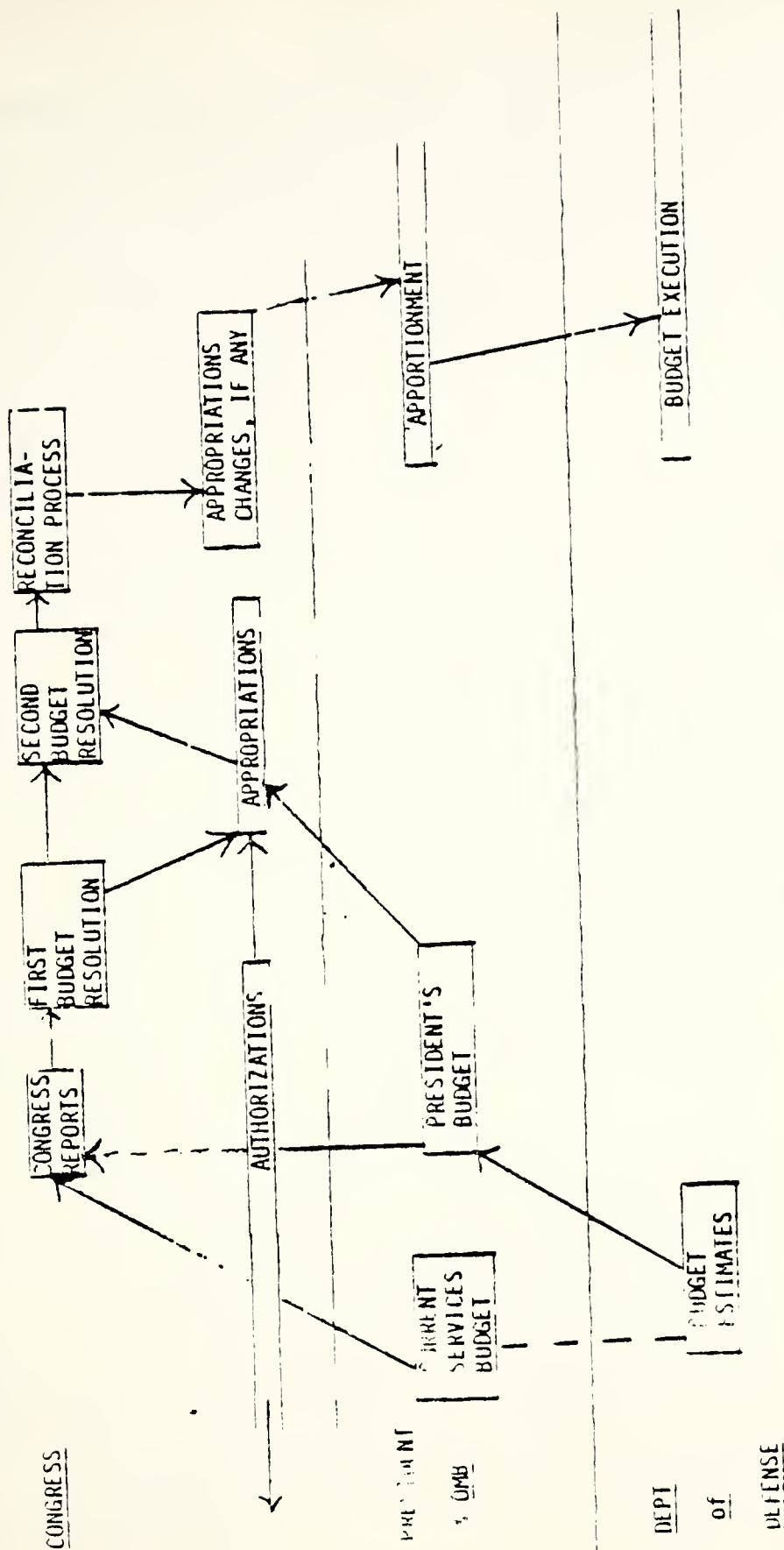


Figure XII

Source: Practical Comptrollership, Student Text, Naval Postgraduate School

the specified purposes or the personnel and training levels covered, but does not represent an appropriation nor convey obligational authority. Authorizations establish ceilings for amounts to be appropriated by the appropriation committees.

The events in the authorization phase for FY 1981 (Figure XIII) are as follows:

The authorization process of the enactment phase begins with the congressional action on the annual DOD Budget /14,22/. For FY 1981 this begins in January 1980 to be completed by about June 1980.

1. In mid-January, the President submits the DOD Budget to the Congress. Detailed review commences early in February when the House Armed Services Committee (HASC) begins formal hearings at which various members of the defense establishment testify in regards to the budget and its content.

2. When the HASC hearings are complete, the Committee marks up the budget as submitted and prepares and issues its Authorization Bill Report, which contains the committee's recommendations on changes.

3. The bill and the HASC Report are submitted to the full House for floor debate, further amendments, and the passage of a House version of the Authorization Bill.

4. The Senate Armed Services Committee (SASC) also holds a series of hearings, some in parallel with the HASC, where again various DOD officials testify.

5. The SASC also prepares and issues a Report on the Authorization Bill.

AUTHORIZATION PROCESS, ENACTMENT PHASE

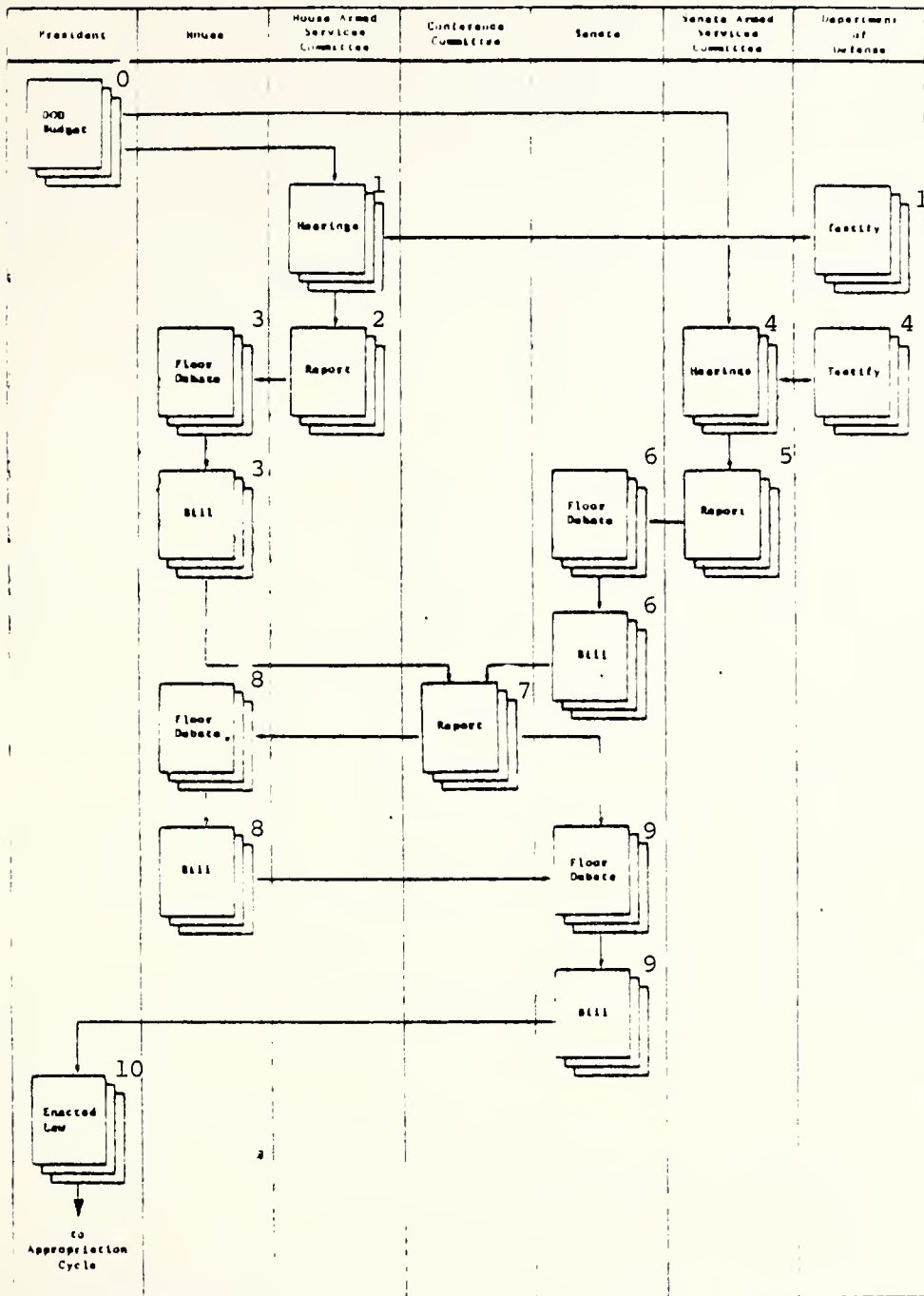


Figure XIII

Source: Fiscal and Life Cycles of Defense Systems, General Dynamics

6. After review by the full Senate, floor debate, and amendments, the Senate passes its version of the Authorization Bill.

7. If there are any differences between the two versions of the bill, and there usually are, they are resolved by a Conference Committee. After resolving the differences, the Conference Committee prepares and issues a Conference Report with its recommendations as to how to resolve the differences.

8. The Conference Report is brought to the full House for review, floor debate and the passage of an amended Authorization Bill. Any amendments to the bill, other than those recommended by the Conference Report, could result in a second Conference Committee being formed.

9. The Senate next takes up the Conference Report and the House passed Authorization Bill. After debate, the Senate also passes the Authorization Bill.

10. The Authorization Bill is then forwarded to the President, and when the President signs it, it becomes an enacted law.

c. Appropriations Process

As mentioned earlier, the appropriations phase is embodied in both the House and the Senate. Figure XIV shows entire appropriation phase.

(1) House Reviews. Review of the overall Federal Budget by the House Appropriations Committee usually begins with hearings at which officials of the administration, such

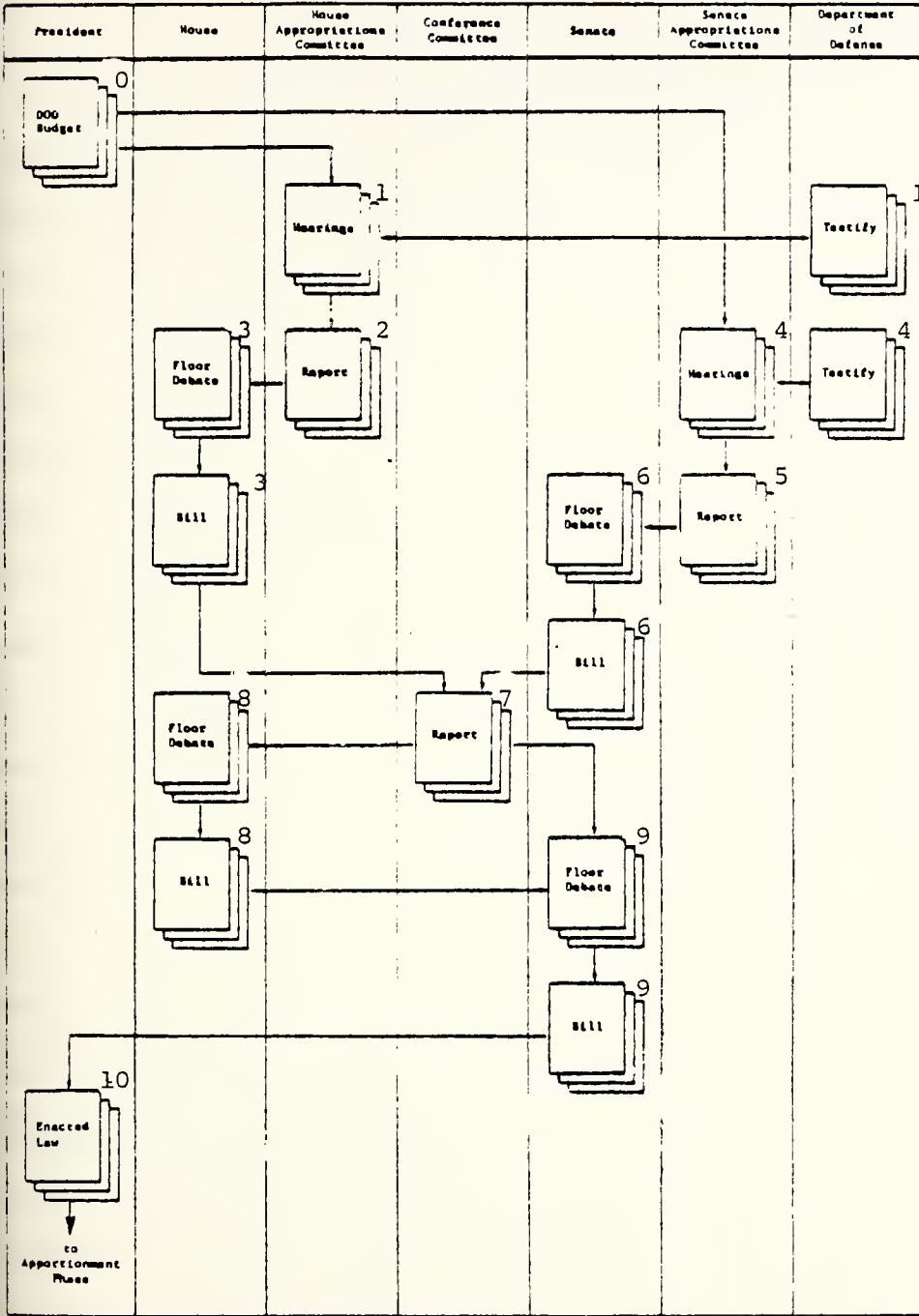


Figure XIV

Source: Fiscal and Life Cycles of Defense Systems,
General Dynamics

as the Director of the OMB and the Secretary of the Treasury, testify on broad questions of national fiscal policy.

Following this, the DOD subcommittees start a series of top-level hearings at which the Secretary of Defense, the Chairman of the JCS, and other officials explain the total Defense program and the funds required to support it. At this time each military department is given an opportunity to explain its overall program requirements and funding plans. For the DON this explanation is usually made by the Secretary, the CNO, and the Commandant of the Marine Corps (CMC). The DOD subcommittee questioning of witnesses on each Navy appropriation is usually preceded by two brief statements; one is presented by the program sponsor from the Office of the CNO, with respect to program requirements, and the other is presented by the chief of the cognizant bureau, command, or office, with respect to funds required to carry out the program.

Records of the hearings are published and become a basic source of information for members of the full appropriations committee and for members of the House in considering the appropriation bill. Because they are available to the public, the hearings also serve a broader purpose in that information from them is widely disseminated through the press and other news media.

After completion of the hearings, a markup is prepared. For this, subcommittee members have available a considerable quantity of material, including the Subcommittee

Print (consisting of the entire DOD appropriation bill as outlined in the President's budget), financial data on the budgets of prior years, copies of prepared statements of witnesses, tabular data covering programs of the DOD, justification books, and a variety of reports prepared by the subcommittee staff. Audit and other reports of the General Accounting Office are also available. The testimony of witnesses is of course a primary source of information.

Upon completion of the markup, the subcommittee staff prepares the Full Committee Print of the proposed bill and the Report. The Report explains the action taken by the subcommittee in its markup. The full appropriations committee then meets to consider the proposed actions of the subcommittee. Upon approval by the full committee, the bill is reported out onto the floor of the House. There it is assigned an identifying number. Usually, within a few days after being reported out, the bill is debated and passed with such amendments as the House may have made.

The House Subcommittee Report often contains a number of specific suggestions and recommendations aimed at bringing about greater economy and efficiency in the defense effort. Some of these may be of a general nature. Others may be in the nature of an order. For example, there may be a recommendation that a certain program be studied with the objective of reducing its scope and cost, or there may be a statement that certain things will or will not be done in the future.

Technically, comments of the subcommittee have no standing in law. Because of the committee's influence, however, as well as the merit of many of its observations, the Report provides a useful basis for action within the Navy. It also serves as a basis for further discussion between Navy officials and the subcommittee staff with respect to the studies, investigations, and reports in which the staff have expressed interest.

(2) Senate Review. The House bill and the President's Budget serve as the basis for Senate budget review. The House bill is of particular importance because the Senate subcommittee allows the military departments to make reclama statements on all items where there is disagreement with action taken by the House. These reclamation are in the nature of appeals. The subcommittee considers them carefully in the process of its review.

Generally, Senate subcommittee hearings are brief, lasting about two or three weeks on a full day basis for the entire defense program. In some years most of the time at Senate hearings has been devoted to testimony on matters pertaining to the reclamation. In other years the subcommittee, while emphasizing the reclamation, has devoted a great amount of time to testimony on the defense program as a whole.

On the completion of the hearings, the bill is marked up by the subcommittee, and drafts of proposed changes, as well as a report, are submitted to the full

Committee on Appropriations. For ease of comparison with action taken in the House, the bill shows both the wording of the House bill and the proposed Senate amendments to the House bill.

After the Senate has passed its amended version of the House bill, the final task is to reconcile differences between the bills passed by the two houses. This is done by a conference committee composed of members appointed from both the House and the Senate appropriation committees. Agreements reached by the conference committee are embodied in a conference report which is resubmitted to each house. The conference bill is then usually accepted and passed by both the House and Senate.

(3) Appropriations Act. Following passage by Congress, the authorization bill, modified according to congressional action on the conference report, is transmitted to the President for approval and signature. When signed, the bill becomes an act of Congress and is assigned a public law number. Once the bill is signed into law, it means that, subject to apportionment action, funds up to the amounts appropriated are available for use by the DOD.

The events in the appropriation phase for FY 1981 (Figure XIV) are as follows: 14,247

The appropriation process of the enactment phase is very similar to the authorization process in that the bill must be considered by committees of both houses, compromised in conference, passed, and then signed by the

President. For FY 1981, this phase begins sometime in February 1980 to be completed by September 1980.

1. For the House, the first review is conducted by the House Appropriation Committee (HAC) which reviews the DOD Budget and the Authorization Bill, along with receiving testimony from various DOD officials. It should be noted that any item deleted during the Authorization Bill review and passage cannot be considered during the Appropriation Bill review and passage.

2. After review and hearings, the HAC prepares and issues its Appropriation Bill Report which documents its recommendations.

3. The Report is reviewed and considered by the full House and, after debate and possible amending, a House Appropriation Bill is passed.

4. The Senate Appropriation Committee (SAC) also holds hearings, some in parallel with the HAC.

5. The SAC then prepares and issues its Appropriation Bill Report.

6. After review by the full Senate, debate, and amendments from the floor, the Senate passes its version of the Appropriation Bill.

7. If there are any differences, and there usually are, between the two versions of the Bill, they are resolved by a Conference Committee. After resolving the differences, the Conference Committee prepares and issues a Conference Report.

8. The Conference Report is brought to the full House for review, floor debate and passage of an amended Appropriations Bill. Any amendments to the Bill, other than those recommended by the Conference Committee, could result in a second Conference Committee being formed.

9. The Senate next takes up the Conference Report and the House passed Appropriations Bill. After debate, the Senate also passes the Appropriations Bill.

10. The Appropriations Bill is then forwarded to the President, and, if the President signs it, it becomes an enacted law. Figure XV shows the entire budget preparation process for FY 1980.

3. Budget Execution

Budget execution is the process established to achieve the most effective, efficient, and economical use of financial resources in carrying out the program for which the funds were approved. It is a process that covers a lengthy time span, is initiated by required procedures, and is implemented by a vast number of people.

Procedures which initiate the budget execution process are the three steps necessary to make funds appropriated to the Navy available for commitment, obligation, and expenditure. These are: (1) receipt of a copy of an Appropriation Warrant by the Department of the Treasury, (2) approval of the request for the apportionment of funds, and (3) approval of budget activity allocations or operating budgets. Figure XVI shows the Navy funds flow process, and Figure XVII shows

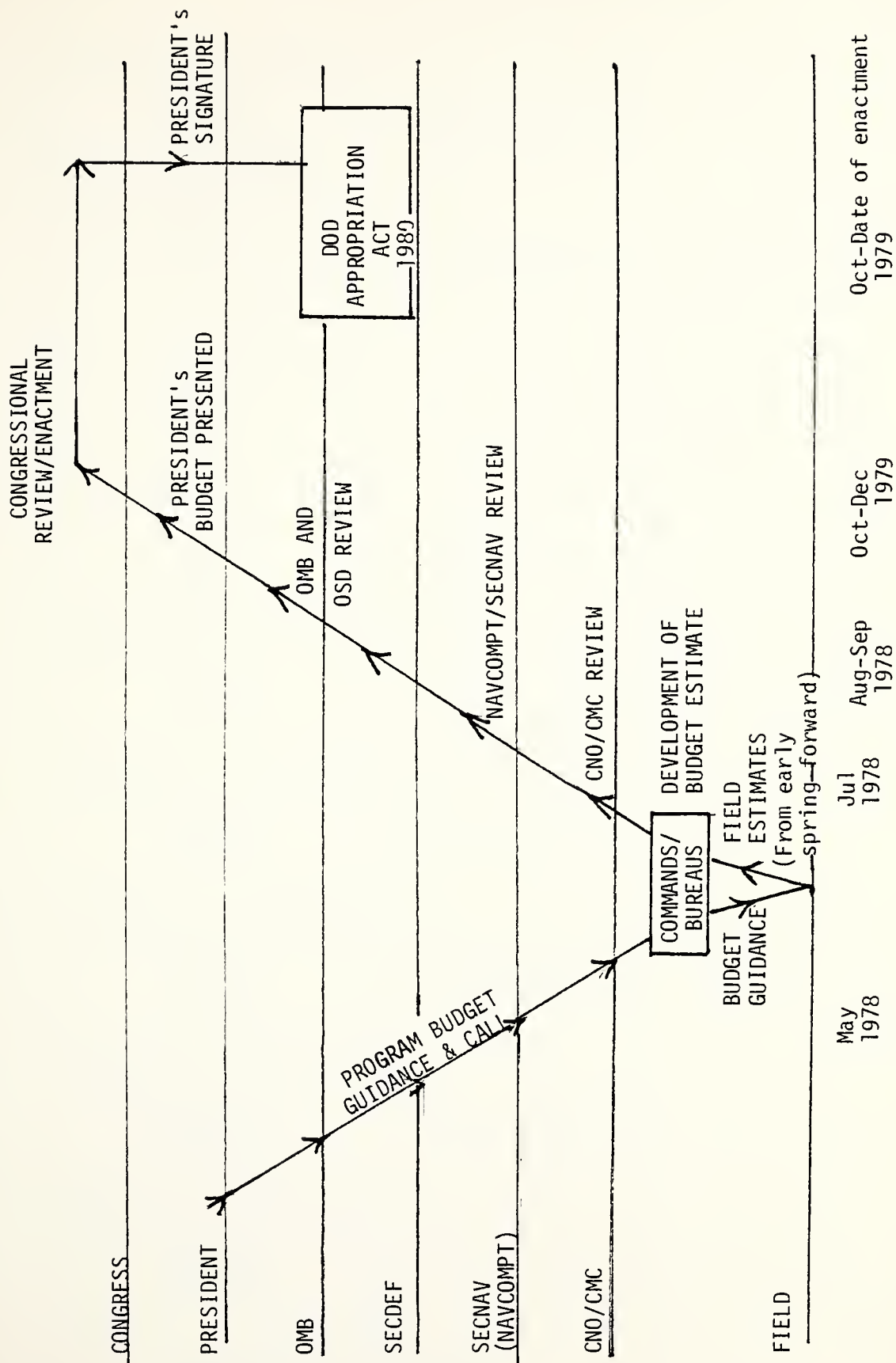


Figure XV

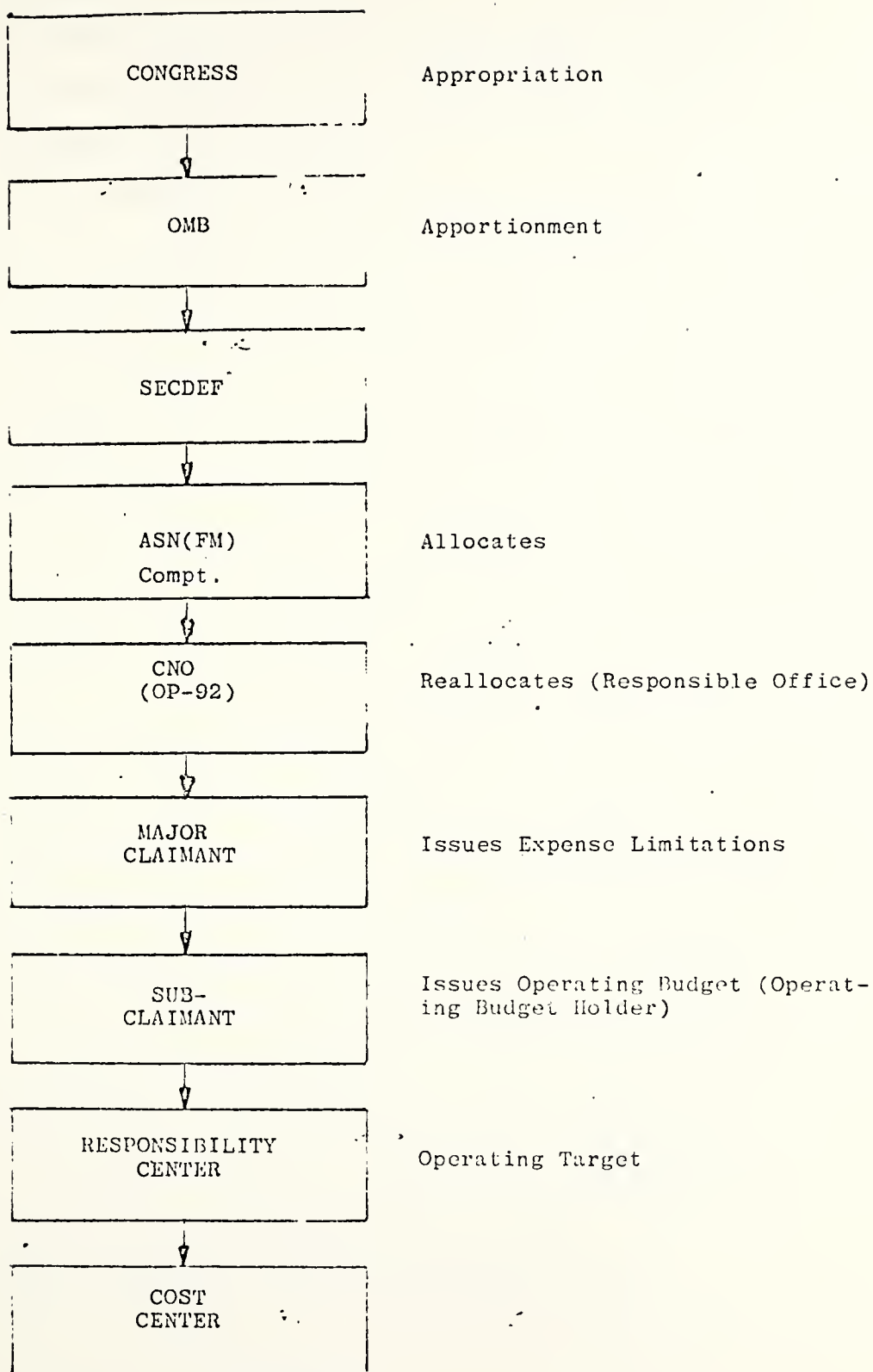


Figure XVI
The Navy Flow Process

interactions among the President, the OSD, and the OSD components with respect to the flow of Navy funds. The Navy funds flow process is described in further detail below.

a. Appropriation Management

The first control established to ensure proper use of funds in the appropriation act itself, since it establishes the dollar limitations on the conduct of programs.

The Comptroller of the Navy assigns each appropriation to a single office for overall management. The CNO and the CMC are responsible for all DON appropriations as appropriate, except RDT&E, which is assigned to the Assistant Secretary of the Navy (R&D). CNO (OP-92), in turn, assigns management responsibilities to the major claimants. The Chief of Naval Material (CNM) has a major role in administration of the procurement accounts as principal administering office for these accounts on behalf of the CNO.

Keeping within the legal limits set by the appropriation act, month-to-month accomplishment of authorized programs must be watched closely to ensure that the funds appropriated will not be exhausted before the end of the fiscal year and that funds are used only for purposes approved in the appropriation act. The apportionment and allocation processes have been established to assist Navy management in controlling the rate and purpose of funds usage.

There are three types of appropriations:

APPORTIONMENT PROCESS

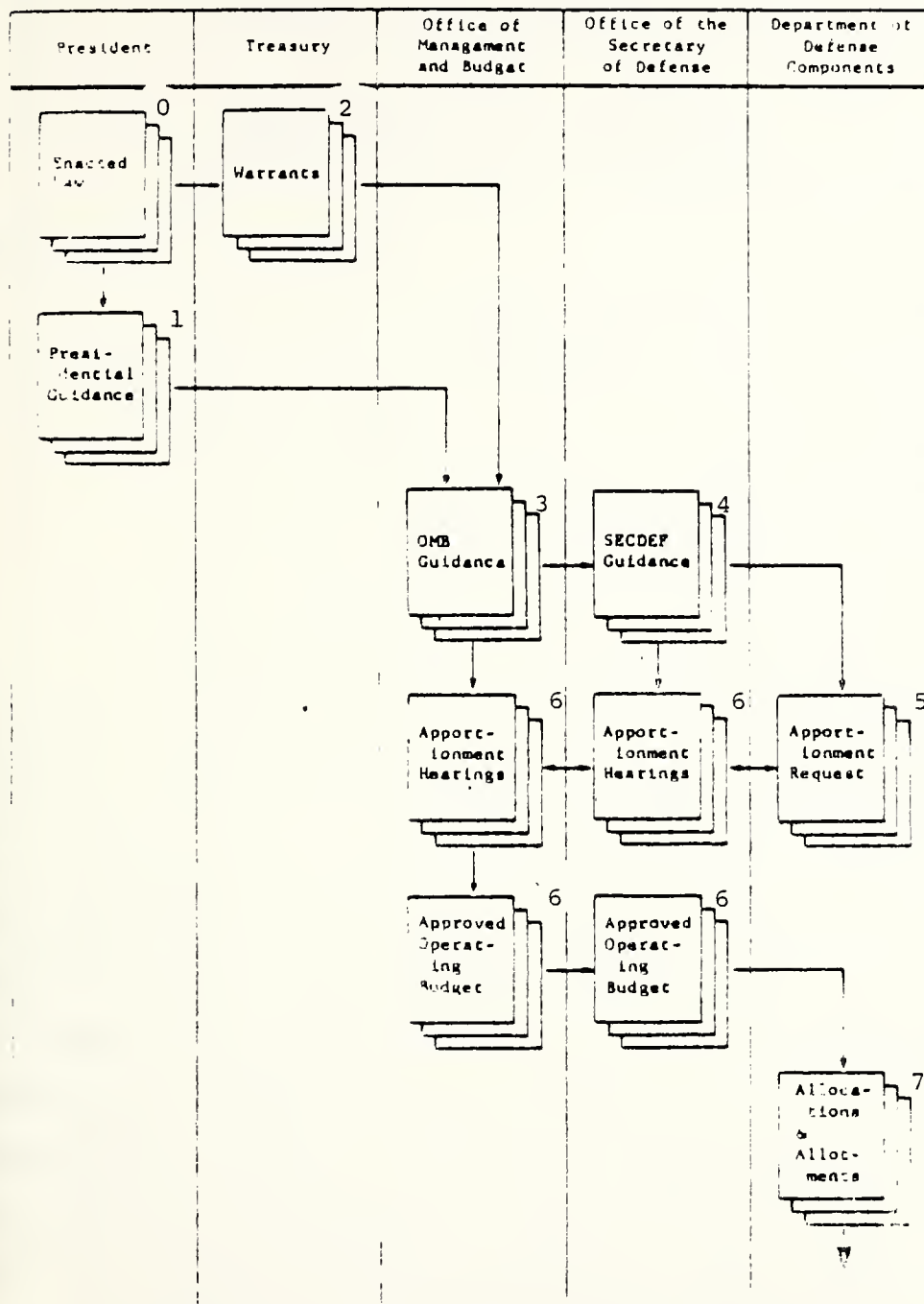


Figure XVII

Source: Fiscal and Life Cycles of Defense Systems, General Dynamics

- (1) Annual - only available during one fiscal year,
- (2) Multiple - for a definite period in excess of one fiscal year, and
- (3) Continuing - for an indefinite period of time (no specific time limit).

There are five types of Congressional appropriations in terms of structure:

- (1) Military Personnel (Milpers),
- (2) Operation and Maintenance O&M),
- (3) Procurement,
- (4) Research and Development (R&D), and
- (5) Military Construction (MilCon).

b. Apportionments

An important phase of the budget execution process is the systematic and orderly release of appropriated funds by reviewing agencies. The law governing apportionments requires that " ... all appropriations of funds available for obligation for a definite period of time shall be so apportioned as to prevent obligation or expenditure thereof in a manner which would indicate a necessity for deficiency or supplemental appropriations for such period; and all appropriations or funds not limited to a definite period of time, and all authorizations to create obligations by contract in advance of appropriations shall be so apportioned as to achieve the most effective and economical use there." /21,129/ This procedure is intended to release only those funds required to meet the latest plans and to prevent obligations and expenditures in excess of available amounts.

An apportionment is a determination by the Director of the OMB as to the amount of obligations which may be incurred during a specified period under an appropriation, contract authorization, other statutory authorization, or a combination of these documents.

The OMB has authority to apportion funds for all or any part of a fiscal year and for any program or other subdivision of an appropriation. Navy funds are generally apportioned at the appropriation level; that is, with no subdivision for programs or projects. Annual appropriations are usually apportioned on a quarterly basis, and multi-year and continuing appropriations on an annual basis.

The apportionment process is concerned mainly with establishing orderly rates of obligation to prevent or to minimize the need for supplementary appropriations resulting from obligating funds in excess of amounts appropriated. In recent years, however, the OMB having been given additional legislative authority, has increasingly used the process as an instrument to accomplish the broad objectives of national fiscal policy as well as to review detailed program requirements. Apportionments thus are now used to establish reserves and to effect savings, in addition to establishing and authorizing rates of obligation.

The steps in the apportionment procedure are similar to those taken in the original justification for the funds, with similar backup material, hearings, and reclaims required. Components assigned appropriation management

responsibilities prepare apportionment requests in compliance with instructions issued by the OMB, SECDEF, and Office of the NAVCOMPT. Apportionment requests and supporting materials are forwarded to the NAVCOMPT who reviews them to ensure that they conform to appropriation language and general provisions, that the amounts requested are in line with the amounts justified before Congress, and that they are realistic within the planned area of accomplishment of authorized programs.

Upon approval by the NAVCOMPT, the requests are forwarded to the SECDEF where they are normally reviewed jointly by OSD and OMB representatives.

During these reviews, a request may be changed in any of a number of respects - to alter the rate of obligation, for example, or to place funds in reserve.

After passage of an Appropriations Act, the OMB, acting for the President, determines apportionments, and returns approved requests with any comments, via the SECDEF, to the NAVCOMPT. The latter then forwards each request to the responsible office.

Receipt of the approved apportionment (together with allocations) means that funds, in the amounts and under the conditions set forth, have been released and are available to the responsible components for commitment obligation for the purposes specified in the appropriation.

As stated earlier, apportionments for annual appropriations are generally made on a quarterly basis.

They may, however, be made for periods other than calendar quarters when such periods are more representative of program activities and when annual or uneven apportionments will better facilitate program accomplishment.

The OMB maintains a continuing check on all apportionments through a system of monthly reports. The principal report (Report on Budget Execution) is used by the OMB to exercise broad fiscal control throughout the government. The Navy's monthly Report on Budget Execution is prepared from records maintained in the accounting system and reflects data for each appropriation as a whole.

In addition, the DOD requires monthly Appropriation Status Reports which give data on the obligations incurred, and outlays made, by major divisions below the appropriation level.

c. Allocations

The primary purpose of an allocation is to ensure that congressional intent is followed in the use of funds for budget activities/programs below the appropriation level. Allocations also provide a means of obtaining Navy and, if necessary, higher authority approval of desirable program changes which are of a significant nature. Based upon requests received from offices, bureaus, and commands, allocations are made by the Office of the Comptroller representing funds approved for subdivision of appropriations.

Apportionments and allocations serve different purposes. The purpose of an apportionment is to control the

rate at which appropriated funds are obligated, whereas the purpose of an allocation is to control the total amount of such funds that may be used for a particular budget activity during the year.

After passage of an appropriations act, the responsible offices make initial interpretations of the intent of Congress for the appropriations under their cognizance. Each then prepares a Budget Activity Allocation Form requesting the Comptroller to allocate stated amounts of the funds to specified subheads of the appropriation in question. Proposed allocations generally follow the lines of the program and activity structure which was used in formulating the budget.

The CNO is the authority who has been officially designated to request the allocation of funds. CNO (OP-92) reallocates this authority and responsibility to the major cliamants. In the reallocation process he may specify any funds directly identifiable to individual designated project manager programs.

Because they must not exceed apportionments, allocations and apportionment requests are prepared at the same time and forwarded to the NAVCOMPT. The Comptroller clears allocations with the CNO and the Secretary of the Navy as required.

d. Allotments

Allotments are authorizations issued by the head, or other authorized official, of a bureau, command, or office

to incur obligations within a specified amount pursuant to an appropriation or other statutory provision. The granting of an allotment reduces the available balance of the appropriation but does not constitute an obligation. The allotment holder, however, may create obligations or incur expenditures against the appropriation to the extent of the allotment within its authorized purposes.

e. Expenditures

The obligations entered into during a year may result in expenditures (outlays) during the year in which the funds are obligated, as is often the case with maintenance and operation costs, or they may result in expenditures over a period of several years, as in ship construction and aircraft procurement.

Expenditures represent the actual payment of funds by the Department of the Treasury. As such, they are compared periodically (particularly at the end of the fiscal year) with receipts to determine whether there is a budget deficit or a surplus. Considerable emphasis is naturally placed on keeping the budget in balance if at all possible.

Expenditures have an immediate effect on the economy of the country. As government expenditures have risen, economists and other have given increasing attention to the fact that national fiscal policy - the rate and level of government expenditures, the extent and nature of taxation, and the balance between expenditures and revenues - has a significant impact on the economy of the country.

f. Reprogramming

During the course of a year, it is inevitable that unforeseen events will occur which will make it desirable to transfer funds between programs of an appropriation or between appropriations. Such an action is called reprogramming - the shifting of funds from the accomplishment of the original purpose for which they were justified to Congress for the accomplishment of some other purpose.

The reasons for reprogramming are many. They include changes in operating conditions, new and urgent requirements, wage rate adjustments, price changes, enactment of new legislation and the like. Some reprogramming is minor while in other cases it is substantial and far-reaching in scope and effect.

Reprogramming involves the serious question of keeping faith with Congress. Once funds have been appropriated in response to specific justifications, there is the question as to whether or not (and if so, to what degree) the departments may divert them from one program to another.

g. The Budget and Program Performance

The budget is the instrument through which annual Navy program plans are developed, approved, funded, and controlled. As a management tool, it is a strong motivating force for the orderly execution of programs. It is a convenient device for reviewing program performance in relation to plans.

The information necessary for such review is obtained from many sources, among which are regular accounting reports. Progress reports in varying degrees of detail covering various time periods and segments of programs are also used.

Analyses of these reports show how well programs are proceeding, how well funds are holding out, the effect one program's progress or delay has on another, when adjustments are necessary, and other matters of importance to management. Knowledge gained from these analyses is valuable in determining what additional reserves may be established, what previously established reserves should be release, when the transfer of funds to another program is advisable, and when there is a need for reapportionment or reallocation.

Data used for performance review are also valuable in substantiating budget estimates in succeeding years.

The budget is used as a basis for analyzing the progress of programs in relation to plans at all management levels within the Department of the Navy.

In addition, the OSD and the OMB make similar comparisons to bring to light for appropriate management consideration vital issues bearing on the defense program.

Thus, at all levels, the budget is an instrument which permits the planned, controlled, and effective management of programs.

While this analytical process is ongoing in nature, midway into the fiscal year, major emphasis has

traditionally been placed on a formalized "Mid-Year Review." This annual submission utilizes actual progress experienced over a six-month period as the baseline for evaluating program status in relation to budget and execution plans. It provides an opportunity to address major imbalances and specific problem areas at the highest management levels, and offers a formal vehicle for implementation of resulting financial and/or program decisions.

h. Operating Budgets

Approved operating budgets (OBs) are the means of issuing obligational authority under the O&M, Navy, and RDT&E, Navy, appropriations. They are issued to all echelons down to the Responsibility Center (RC) level; however, certain small activities, and certain units of the operating forces receive operating targets (OPTARS) within the cognizant command's operating budget, as do departments/divisions of RCs.

For each applicable O&MN budget activity, OBs are issued by the CNO Fiscal Management Division to major claimants. These OBs include military personnel expense authority at standard rates and O&MN expense and obligational authority. From amounts received, major claimants issue expense limitations to subclaimants, or issue OBs to RCs, in the absence of subclaimants.

A subclaimant is a bureau, office, or command designated as an administrating office under this appropriation, but it receives its operating budget from a major claimant.

An expense limitation holder is a type, functional, or similar command directed by a major claimant to issue OBs, within specified dollar limitations, to activities under its command.

Major claimants and subclaimants grant themselves OBs to cover the costs of their headquarter operations and any expense elements and units centrally managed at their respective headquarter levels. For example, the fleet commanders-in-chief exercise central control over fuel for ships, medical and dental material, overhauls, restricted and technical availabilities, utilities, and projects of designated value for minor construction and maintenance of real property. Type commanders retain control of travel of personnel, except travel in fleet aviation OBs, and military personnel services. No centrally managed items are included in OPTARS issued to operating units; the respective commanders maintain obligation control through documents and reports specified for submission by the various units.

i. Activity Level Budget Execution

The operating budget prepared by a responsibility center sets forth the annual plan of operations. It is the commanding officer's estimate of the total resources required throughout the year for the performance of the activity's mission, including the reimbursable work and services performed for others. The budget as approved by proper authority sets forth the actual resources available, and it is against these amounts that performance is evaluated. Budget approval

is provided on a Resource Authorization Form (NavComptForm 2168-1) which indicates, in quarterly increments, approved obligational authority, military service authority, and expense authority. A sample approval is shown in Figure IX.

In the event the total budget is approved in an amount other than the requested amount, the activity must revise its annual plan to agree with the approved amount, based upon guidance furnished by the approving authority. If directed, a copy of the updated plan, in the same format as the original budget submission, is furnished to the approving authority.

j. Limitations on Operating Budgets

Section 3678 Revised Statutes (R.S.) and Section 3676 R.S. provide that all agencies of the Government receiving appropriations of public funds must establish administrative regulations to prevent any act which will cause an obligation or expenditure to be made in excess of an appropriation, apportionment, reapportionment, or subdivision thereof.

Pursuant to these requirements, the DOD issued regulations titled, "Administrative Control of Appropriations Within the Department of Defense." /21,136/ Under these regulations, Commanding Officers must ensure that all affected subordinates are made aware of the penalty provisions of these statutes as well as of all current Navy Department directives pertaining to the administration of funds. The pertinent provisions of these two statutes are described below.

Section 3678, R.S., 31 U.S. Code 628. This provision of law dealing with the application of monies appropriated by Congress requires that these funds be used only for the programs and purposes for which the appropriation is made. The law states: "Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made, and for no others." In addition certain other provisions of law, which must be administered as limitations, establish the maximum or minimum amount which may be used under an appropriation or appropriations for specified purposes. These limitations include such items as: the ceiling imposed in the Department of Defense Appropriation Act on the amount available for the operation of overseas dependent schools; the amount available in the O&M, Navy, appropriation for emergency and extraordinary expenses; and the floor established in the O&M appropriations for maintenance of real property facilities.

Section 3679, R.S., 31 U.S. Code 665. This law, often referred to as the "Anti-Deficiency Act," is probably the most single important law affecting the Commanding Officer in the execution of his financial responsibilities at the activity level. Its principal provisions are as follows:

(1) It prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or in excess of the amount permitted by agency regulations.

(2) It provides that the person who caused the violation may be subject to discipline which may include suspension without pay or removal from office. If action is done knowingly and willfully, that person may be subject to criminal penalties of a fine of up to \$5,000 or imprisonment for not more than two years, or both.

(3) It forbids the involvement of the Government in any contract or obligation to pay money in advance of appropriation.

(4) It requires apportionment by months, quarters, or other regular periods, or by activities or functions, or a combination of both methods.

(5) It requires the head of each agency to issue regulations establishing an administrative control system with a dual purpose: first, to keep obligations within the amount of apportionment; and second, to enable the agency to fix responsibility for the making of an obligation in excess of the apportionment.

k. Event Schedule

The major events in the execution phase are shown in Figure XVII and may be summarized as follows: 14,267

(1) The apportionment process normally takes place in late September or early October as the Appropriation Bill is finalized, passed and signed into law. Apportionment is based on Presidential guidance and reflects his control and restrictions as to the rate and purpose of obligations as provided by law.

(2) At this same time, the Treasury issues a series of Warrants to reflect the types and amounts of funds available.

(3) The actual apportionment process is exercised through the OMB which provides guidance to the various executive departments and agencies based on the President's guidance and the Treasury Warrants. Apportionment is designed to prevent over-obligation; funds are made available on an annual, quarterly or other periodic basis.

(4) Based on the guidance it receives from OMB, OSD provides its guidance to the DOD Components.

(5) The apportionment process and the resulting Apportionment Requests also serve the important function of updating the DOD component budgets which were submitted to OSD over a year earlier.

(6) Apportionments are made on the basis of hearings conducted by OMB/OSD and the DOD components wherein Apportionment Requests are considered. In the absence of an enacted appropriation, the SECDEF establishes authorized obligation rates for each appropriation. After the Appropriation Bill has been enacted and the apportionment has been released by the OMB, the apportionment becomes the SECDEF's authorized obligation rate.

(7) Following the establishment of the rate of obligation by the SECDEF, the DOD components allocate funds to responsible officials in their organizations. These allocations are usually divided into sub-allocations, allotments

and sub-allotments or are included in OBs to make funds available for commitment, obligation and expenditure.

D. FISCAL CYCLE OVERLAP

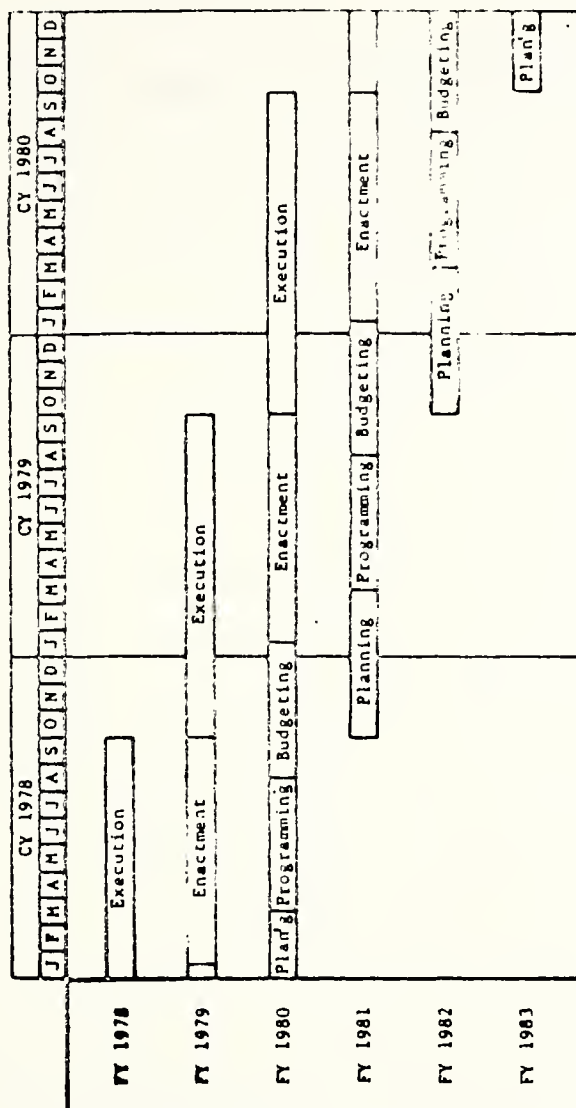
The PPB cycle is a continuing process that takes two years from the issuance of the JSPD until the final passage and signing of the Appropriations Bill. As a result, there are always three different fiscal year budgets active. For example, the three activities in process in May 1979 were as follows:

FY 1979 was in the Execution Phase,

FY 1980 was in the Enactment Phase, and

fy 1981 was in the Programming Phase.

This overlap is shown in Figure XVIII.



PPB Fiscal Cycle Overlap

Figure XVIII

Source: Fiscal & Life Cycles of Defense Systems, General Dynamics

IV. HISTORY OF THE BUDGETING PROCESS IN THE TURKISH NAVY

As a result of the 1929 world economic crisis Turkey developed a budget planning cycle as did many other states. For the first time a five-year plan for the 1930s was made and executed successfully. During the execution phase of this plan a second five-year plan was drafted, but it was never executed because of the advent of World War II. This situation continued until the acceptance of the Constitution in 1961.

The Constitution of 1961 resulted in the establishment of several new agencies, including:

(1) The National Security Council (NSC): This body consists of the President, the Prime Minister, the Secretary of Defense, the Secretary of the Interior, the Chief of the General Staff, the General Secretary of the NSC, and the Heads of the Services. The NSC meets on an irregular basis, sets strategies and policies for the State, and advises the government regarding internal and external issues.

(2) The Planning Organization of the State (POS): This body originates development plans for the government.

(3) The Office of Auditing (OA): This body audits all Secretarial expenditures on behalf of the Congress. It also controls the implementation of the fiscal budget and reports the results of controls to the Congress.

The Constitution of 1961 required the government to prepare development plans. After approval of these plans by

the Congress, they provide the basis for the preparation of fiscal budgets.

Until 1973 the DOD employed planning and budgeting phases independently and did not utilize a programming phase. But the lack of a programming phase created numerous problems, similar to the problems encountered in the U.S. prior to its acceptance of a programming phase.

In 1973 a new budget that is called the Plan-Program Budget (PPB) was formulated and executed. A programming phase was added to the budgeting process and the three phases were combined.

It is appropriate to mention here some of the important laws that deal with the formulation and execution of the budget.

* Number 1050, General Accounting Law:

(1) This law designates the agencies authorized to expend money for government services and defines their responsibilities.

(2) It details the procedures to be followed and the documents to be used in the budget execution phase.

(3) It details the procedures and the time schedule to be followed for budget preparation.

(4) It describes all of the accounting procedures that must be followed in the execution of budget.

* Number 2490, Purchasing and Contracting Law:

(1) This law describes monetary limits on the purchase of equipments for government use.

(2) It specifies all of the provisions and procedures for making contracts.

* Number 1601, The Law of the Reorganization and Modernization of the Armed Forces:

(1) This law provided additional funds for the reorganization and modernization of the Armed Forces. These funds are not included in the fiscal budgets and are controlled directly by the Chief of the General Staff.

V. REVIEW OF THE TURKISH NAVY BUDGETING PROCESS

The Turkish Navy budgeting process consists of three phases. They are:

- A. The Planning Phase
- B. The Programming Phase
- C. The Budgeting Phase

A. THE PLANNING PHASE

In the light of the Constitution and the related laws that regulate the duties of the Armed Forces, planning includes:

- (1) Setting goals and stating targets with regard to the defense of the country.
- (2) Developing strategies to meet the requirements of these goals.
- (3) Determining functions to be performed to attain these targets in the long run.
- (4) Updating current plans in response to changing circumstances.

Planning is accomplished in terms of time and structure.

(a) Planning according to time:

(1) Long-Range Plans (15 years). These state the targets and objectives of the Armed Forces.

(2) Short-Range Plans (2 years). These determine the quantity and quality of the force structure necessary to attain the objectives and to meet scheduled activities.

(b) Planning according to structure:

(1) Physical Plans. These include necessary equipments and personnel strengths to carry out approved missions.

(2) Financial Plans.

The long-range and short-range plans are drafted by the Chief of the General Staff with the cooperation of the Services. Subsequently each service develops its own plans in the light of the plans made by the CGS.

There are two other plans in the planning cycle. The first is the five-year development plan (FYDP) made by the Planning Organization of the State. The FYDP is a part of the 25-year Development Plan. The POS drafts the 25-year Development Plan in coordination with the various government agencies. This plan is divided into five sequential development plans.

A FYDP includes all investments of the Secretariats (Ministries). Each Secretariat submits his recommendation for investments for the next five year period to the POS. The POS analyzes each of the recommendations for investment in terms of its feasibility and in light of the government's prioritization of the needs of the country.

Upon completion of the analysis, the POS rejects or accepts the recommendations for Secretariat investments and finishes the preparation of the plan in the light of the target stated in the 25-year Development Plan. The POS submits the FYDP to the Government. The plan is reviewed by the Government. If the Government feels it needs some changes,

it sends the plan to the POS with the recommendations for changes. The POS reviews the recommendations, modifies them, if necessary, and returns them to the Government.

The Plan is submitted by the Government to the Congress. The Congress holds a separate meeting for ratification of the FYDP in both the House of Representatives and the Senate. The plan submitted is ratified by-and-large without amendments because of the nature of the Turkish political structure. Each government is based on the majority of the Congress and a firm discipline exists to control each political party member. If the Congress suggests any changes, the Government discusses the suggestions with the POS, and then submits a modified plan to the Congress. Upon approval of the FYDP by the Congress, it becomes the basis for the preparation of fiscal budgets. Although a FYDP is approved by the Congress, it is not enacted as a law.

The second plan in the programming cycle process is the Plan for Strategic Targets. To attain the targets and objectives stated by the Long-Range Plan, the Long-Range Plan is divided into three sequential Five-Year plans. The plan for Strategic Targets is drafted by the Chief of the General Staff on the Long-Range Plans. The CGS in formulating these plans coordinates with the Services and the DOD and issues guidelines to the Services with respect to the considerations that should be made by the Services in formulating their Plans for Strategic Targets.

Each Service develops its Plan for Strategic Targets and submits it for approval to the CGS. The CGS reviews these

plans and forwards them to the DOD. Upon the approval of the Service plans by the CGS and the DOD, they form the basis for the preparation of fiscal budgets, Physical Plans, and Financial Plans by the Services.

It is to be noted that no fiscal constraints have been introduced up to this point in the planning phase.

B. THE PROGRAMMING PHASE

A gap existed between the planning phase and the budgeting phase until the acceptance of the programming phase in 1973. The programming phase bridged this gap and the budgeting and planning processes were integrated.

Programming includes all of the activities and procedures designed to attain the goals and the targets stated in the plans, and determines the timing of activities. Responsible agencies become involved during this phase, and all resource requirements including personnel, monies and material are determined. This is accomplished through a systematic evaluation of all alternative programs to attain planned targets for a period of five years into the future using analytical techniques.

The Navy Headquarters Staff designs programs and analyzes the alternatives necessary to accomplish the targets of its plans in conformity with the DOD program structure. All of these alternative analyses are submitted to the CGS. After reviewing all of the alternatives, the CGS either accepts or rejects them, and the Navy Headquarters is informed of the results.

The Navy Headquarters Staff must consider the following prior to submitting its proposals to the CGS:

(1) The cost of each project and service programmed.

(2) The total cost of all projects and services and their payment plans.

(3) The acquisition channels to be employed, such as acquisition from Turkey and from foreign countries, and the need for foreign exchange to pay for acquisitions from foreign countries.

(4) The portion of a continuing project or investment completed and the portion remaining to be completed.

1. Program Classification

Programs are classified in terms of characteristics of expenditures and services in the Turkish DOD instructions for budget execution. These classifications are:

- Functional classification,
- Classification by type of expenditure, and
- Classification by type of program.

The basic purpose of these classifications are:

(1) To combine the missions and responsibilities of each Service in a systematic manner in order that they may be classified by type of service and activity.

(2) To identify the interrelationships among the services and activities, and to integrate these relationships in this classification.

(3) To consolidate all of the necessary activities and expenditures for a given service.

(4) To show all of the expenditures of the DOD by service in order to permit the comparison of expenditures with the other services.

a. Functional Classification

This classification includes the individual service groups which render services to the Turkish Society. Each service group is accumulated under a Ministry such as Defense, Education, Health, Agriculture, and so forth. Each functional unit (Ministry) is listed in a separate part of the state budget and prepares its own budget.

The following are considered in designing the functional classifications:

(1) All services to the society are grouped under the related functions (Ministries).

(2) Functions cover only those programs that represent the real needs of the ministries.

(3) If a service is related to more than one function, it is listed under only the primary function in order to avoid redundancy.

b. Classification by Type of Expenditure

Under this classification a type of model is utilized that groups the effects of the money spent in the economy with the costs of the services rendered to the public sector.

Expenditures in the Turkish DOD budget are classified into two basic groups and nine sub-groups, with each sub-group having a number assigned such as 200, 300, and

so forth. These groups and sub-groups are:

Expenditures for purchasing services

- 100 personnel expenditures (wages and salaries including all DOD civilian and military personnel),
- 200 Travel expenditures,
- 300 Purchasing of services.

Expenditures for purchasing goods and equipment

- 400 Acquisition of consummable goods and equipments,
- 500 Acquisition of fixed assets,
- 600 Acquisition of machines and vehicles for transportation,
- 700 Expenditures for military construction and the maintenance of military buildings,
- 800 Other payments, and
- 910 Transfers.

c. Classification by Type of Program

All services within a functional unit (Ministry) can be grouped into programs. A program consists of a combination of specific basic service groups within a function and is a type of a sub-classification of a function.

The following considerations are taken in designing program classifications:

- (1) Objectives of institutions and activities must be stated,
- (2) Each program must have a meaningful final product,
- (3) Each program must list the general and support services that it has been designed to provide

(4) A program classification need not conform to the organizational structure of an institution,

(5) Each target of an institution may be a separate program,

(6) Program classifications should include all of the services an institution provides. In other words, the classification scheme should be so designed that each program stands independently, and all of the programs of an institution cover all of its expenditures.

d. Classification of a Sub-Program

Each program is divided into sub-programs. A sub-program is a narrow part of a program. Sub-program classification increases the meaning of programs and facilitates the decision-making and analytical processes. Each sub-program should have a separate meaning and a measurable final product. A sub-program may be divided into activities and projects.

e. Classification by Activity and Project

This classification provides a narrower and more meaningful classification of a sub-program. Projects refer to investments and activities refer to consummable expenditures. Under this classification, all projects and activities are directed to accomplish the principal aim of the program, or sub-program, under which they are included.

f. Allocations

A program can also be classified in terms of types of allocations. The following are included in the

DOD program structure:

Number 1: Consummable expenditures include all of the consummable type expenditures of a program.

Number 2: Investment expenditures include all of the investment type expenditures of a program.

Number 3: Transfers include (a) expenditures for contributions to the international organizations in which Turkey is included, such as NATO; (b) the amount of aid provided to social parties, institutions, pious foundations and so forth; and (c) loan payments to other institutions from a program.

2. Program Structure of the Turkish Navy

Since the Navy is a part of the DOD, the Navy budget is included in the DOD budget and program structure. Figure XIX displays the DOD program structure schematically. The National Defense function consists of two programs.

a. The Program of War Powers and Services (102)

This program consists of the allocations of war powers to the Army, Navy, Air Force, and the services of the Chief of the General Staff. It is divided into three sub-programs. These are:

- The sub-program of General Administration (01) which includes all of the personnel expenses of the CGS, Army, Navy, and Air Force.

- The sub-program of Defense Powers and Logistic Support (02) which includes expenditures for the purchasing of services, goods, equipments, and investments by the

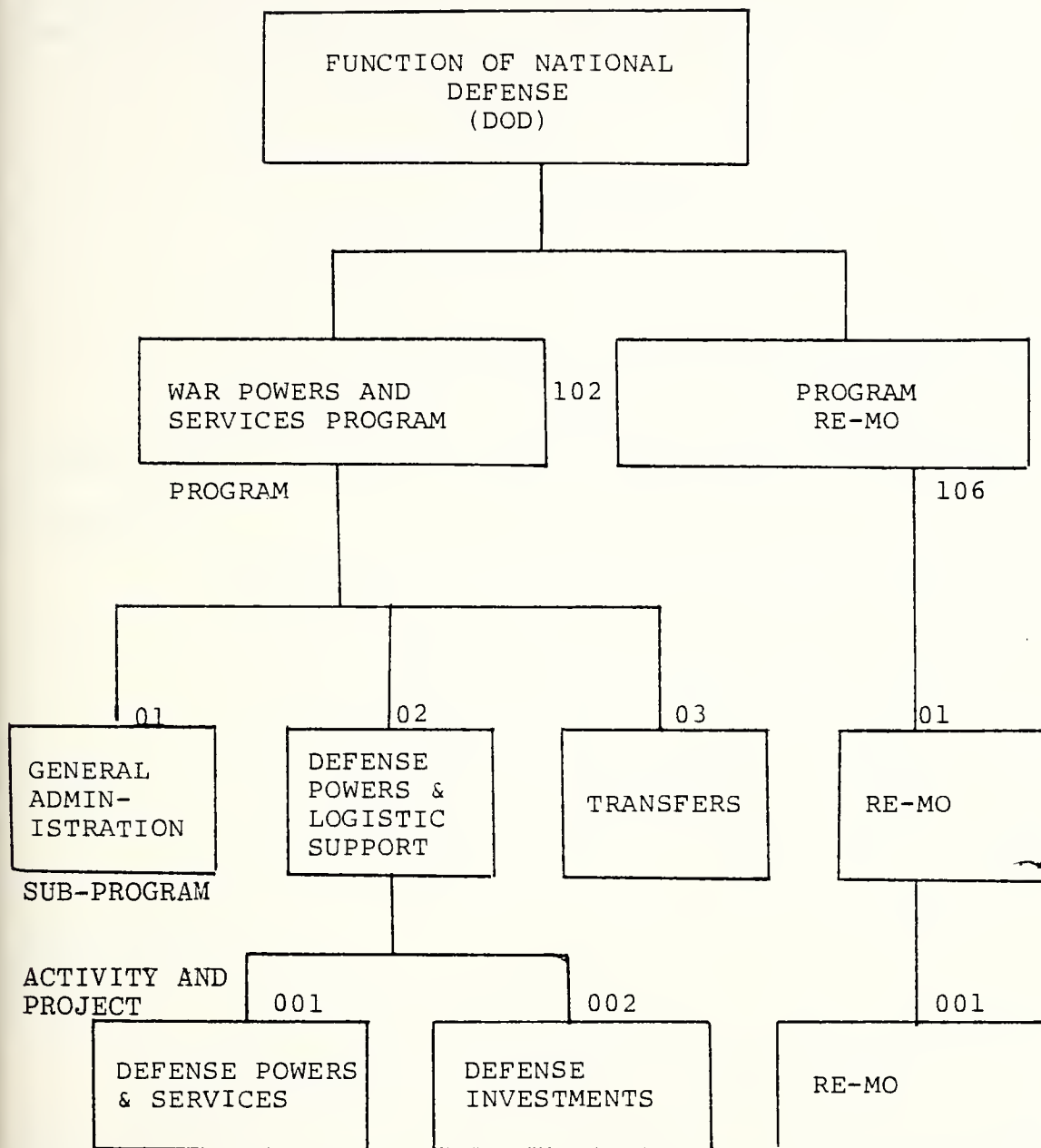


FIGURE XIX. Program Structure of the Turkish DOD PPB Process
 Source: DOD Instruction of Budget Formulation for FY 1980

DOD and its components. This sub-program is divided into two basic activities and projects. These are: The activity of Defense Powers and Services (001) is listed under the Number 1 consummable type of allocation, including:

200 Travel Expenses

300 Purchasing Services

400 Acquisition of consummable goods
and equipments

500 Acquisition of fixed assets

800 Other payments of the DOD and the Services

The projects of Defense Investments (002) are listed under the Number 2: Investment type of allocation, including:

600 Acquisition of machines and vehicles
for transportation

700 Expenditures for military construction
and the maintenance of buildings

900 The purchase of buildings and lands for
the DOD and the Services.

The Sub-program of Transfers (03) which includes all expenditures for transfers under the Number 3: Transfer type of allocation.

b. The Program of Re-Mo (106)

This program includes all expenses related to the reorganization and modernization of the Armed Forces Law Number 1601, Reorganization and Modernization of the Armed Forces, permits the DOD to incur obligations for the renewal of weapons and equipments for future fiscal years. This law determines the amount of money that can be spent and the

period of time in which the DOD can make obligations. It is revised each budget formulation period to accommodate changes necessitated by inflation and changes in political and military conditions.

Figure XX depicts the program structure of the Turkish Navy.

C. THE BUDGETING PHASE

A budget is a type of economic plan designed to finance the procurement of services and activities developed during the programming phase for one fiscal year. It includes all of the financial resources necessary to carry out the programs which have been approved previously for a certain time period. A budget is also a law which permits the DOD to spend money for approved programs. The budget estimate for each year sets forth precisely what the Navy expects to accomplish with the resources requested for that year.

A budget serves the following functions.

- Economic or finance function. A budget shows the estimates of the incomes and outlays of the government and plays an important role in the economic life of the country.

- Control function. A budget is a tool used to control the allocation of the resources of a country in an effective and efficient manner.

- Statutory function. A budget permits the administration to spend money for approved purposes.

- Political function. A budget can be reviewed as a list that reflects the political preferences of the government.

| PROGRAM | SUB-PROGRAM | TYPE OF ALLOCATION | ACTIVITY AND PROJECT | TYPE OF EXPENDITURE | NAME OF EXPENDITURE |
|---------|-------------|--------------------|----------------------|---------------------|---|
| 102 | 01 | 1 | 001 | 100 | PERSONNEL EXPENDITURES |
| | | | | | AN ACTIVITY |
| | | | | | CONSUMABLE TYPE OF EXPENDITURE |
| | | | | | GENERAL AND ADMINISTRATION SUB-PROGRAM |
| | | | | | PROGRAM OF WAR POWERS AND SERVICES OF THE DOD |

Figure XX. Program Structure of the Turkish Navy

Source: DOD Instruction of Financial Management for FY 1979 Execution

udgeting is divided into three phases.

1. Budget Formulation
2. Budget Justification
3. Budget Execution.

1. Budget Formulation

This phase includes planning and developing the budget for the fiscal year which will commence a certain time from the beginning of the execution phase. The formulation phase begins when the CNO issues a call for budget preparation to the Navy's components. The Government, the Department of the Treasury, the Department of Defense, the Chief of the General Staff, the Headquarters of the Navy, and the unified commands of the Navy are involved in the budget formulation phase.

Each year the Government issues policy guidance explaining the basic procedures and considerations for budget preparation in accordance with the development plans and programs for that year.

In turn, the DOD issues budget policy guidance based on the Government's guidance including general principles for budget formulation, positive and negative factors that affect the budget, the pricing of proposals, and a time schedule for budget submissions.

The Comptroller of the Navy issues budget directives to the functional assistants of the CNO and the unified commands of the Navy. The Budget of the Navy is comprised of the budgets of the functional assistants of the CNO. Each assistant prepares his own budget separately. The following

assistants are responsible for the preparation of individual budgets in the headquarters of the CNO:

Operational Assistant

Personnel Assistant

Logistical Assistant

Technical Assistant

Comptroller

Intelligence Assistant

Secretariat

The budgets of these seven functional assistants constitute the entire Navy budget.

a. Activity Level Budgeting

Each activity in the Navy prepares its budget in conformance with the Comptroller of the Navy's budget directives. Before receiving a budget call, the commander of each activity holds a serial meeting with his department heads to discuss budget preparation issues and time schedules. The head of the financial department plays an important role in this phase. He is the financial assistant to the commander of the activity and he is responsible for budget preparation. With the assistance of the other department heads, and in coordination with them, the head of the financial department prepares the budget of the activity. The responsibilities of the head of a financial department with respect to budgeting are very important. These are listed below. The head of a financial department: 26,177

- Is the staff member of the activity responsible for financial matters.

- Educates and assists other personnel in the activity in regard to financial and budget matters.

- Promotes economy and efficiency in the execution of assigned programs.

- Issues technical guidance and directions for financial matters throughout the organization.

- Collects cost, expenditure, obligation and other accounting and operating data.

- Drafts the budget of the activity.

The following must be accomplished or considered by the Financial Department during this phase: 26,107

- All necessary documents supporting budget proposals must be submitted to the functional assistant of the CNO to whom they are related.

- The effects of changes in civilian manpower or ceilings, if any, must be shown.

- Price increases for each proposal, if any, must be considered.

- Projects and investments approved in the programming phase must be considered.

- Targets stated in programs and plans must be considered.

After the budget has been formulated by the head of the financial department, it is submitted to the commander of the activity. The commander reviews the budget, returns

it for changes if necessary, and then approves it.

All budget estimates are shown on a five-copy form called the "Work Program." Three copies of this form are submitted to the appropriate functional assistant of the CNO, one copy is submitted to the next senior in the chain of command as an information copy, and the other copy is retained by the activity. All budget estimates must be submitted to the Headquarters of the CNO prior to 25 June of each year.

b. Headquarters Actions on Budget Formulation

Each functional assistant of the CNO reviews the budget estimates that are sent to him. The following items are considered in this phase:

Previous year's data,

Financial laws that pertain to the budget,

Civilian personnel ceilings,

Inflation factors,

Economical and political conditions of the country,

The targets of the Navy that were approved in the basic programs,

Investment programs and new projects.

Each functional assistant of the CNO prepares his budget and submits it to the Comptroller of the CNO. The Comptroller reviews these budget estimates in terms of compatibility with budget directives and programs. There is another office, dealing with the budget preparation phase in the Headquarters of the CNO, called "The Office of Plans and Principles."

It coordinates budgeting with the Comptroller. The Comptroller combines all of the budget estimates of the functional assistants and develops the CNO budget in accordance with the plans and programs that have been previously approved and the technical structure described in the programming phase discussion. A meeting is then held which is attended by the CNO, the functional Assistants and other personnel involved with the budget. The Comptroller submits the budget estimates to the CNO at this meeting. The CNO discusses all estimates with cognizant personnel and suggests modifications if necessary. In its final form, the CNO budget must be submitted to the CGS prior to 30 July.

c. DOD Budget Review

The Office of Financial Planning and Programming of the CGS reviews all service budgets for compliance with controls. If each Service budget is in compliance with the guidance provided by the DOD and the Plan for Strategic Targets, and if it is viewed as correct, it is submitted to the DOD.

The Comptroller of the DOD reviews budget estimates to ensure (1) they meet the objectives of the budget year's portion of the Five-Year Development Plan and targets for programs, (2) the programs initiated by the services comply with the DOD program structure, and (3) the service estimates are supported by necessary documentation. If necessary, the Comptroller modifies the proposals and estimates. A meeting is held by the SECDEF which includes the CGS, the heads of

services and the DOD staffs, to discuss all issues and proposals. The DOD budget takes final form at this meeting. It must be submitted to the Secretary of the Treasury prior to 31 August.

The Secretary of the Treasury is responsible for the preparation of the Government budget. Each Ministry submits its budget estimate to the Secretary of the Treasury prior to 31 August each year. The Secretary of the Treasury reviews all budget estimates. The following points are considered during this review:

- Whether the budget will be balanced or not
- Whether sufficient money has been requested to enable government agencies to accomplish all tasking required by existing laws.
- Whether any new services are to be undertaken.

If his review is negative, the Secretary of the Treasury returns the budget proposal to the appropriate Ministry for modification.

The Office of Governmental Income of the Secretary of the Treasury structures the budget estimates in their proper form and prepares the proposed budget bill, which the Secretary of the Treasury submits to the Committee of Ministries.

The Committee of Ministries reviews the bill and gives it its final form. The Prime Minister signs and submits the bill to the Congress prior to 30 November.

2. Budget Justification

In Congress the budget bill is sent to the Budget Committee which is composed of 50 members of the Congress: 35 members are from the House of Representatives and 15 members are from the Senate. Of these, 35 members are from the political party (or parties, if the Government is made up of more than one political party - coalition) that is in power and 15 members are from the other political parties in the Congress. (The House has 450 members and the Senate has 150 members.) The Budget Committee selects a Chairman and a Deputy Chairman. Other members of the Committee are assigned to review Ministry budgets in accordance with their specializations; at least two members are assigned to review each Ministry's budget. One of the members that is assigned to review the DOD budget is selected as "Reporter." The Reporter and the other assigned members review the DOD budget. If necessary, they visit the headquarters of the DOD. The DOD staffs testify and answer questions posed by the members. A report of each review is submitted to the Chairman of the Budget Committee by the DOD budget Reporter.

The Budget Committee reviews all of the reports submitted by the reporters, makes modifications to the Budget Bill if necessary, and sends it to the Senate within eight weeks of receipt.

After reviewing the bill, the Senate returns it to the Budget Committee with its decision within ten days. The Committee reviews any changes made by the Senate. If the Bill

was changed by the Senate it is returned to the House of Representatives with the recommendations of the Budget Committee and a statement as to whether or not the Committee agrees with the changes.

Next, the House reviews the Budget Bill. It refers questions to the Reporters who are responsible for the Ministry Budgets if more information is necessary. The House may adopt the changes made by the Senate and pass the Bill in that form. However, if the House does not adopt the bill approved by the Senate the bill is returned to the Budget Committee again. The Budget Committee may accept the modification made by the House, or it may not. In any case, a final form of the Bill is submitted to the House. The House must accept the bill submitted by the Committee, the bill modified by itself, or the bill forwarded from the Senate, prior to 28 February. The bill finally approved by the House is submitted to the President. After the budget is signed by the President it becomes a law.

3. Budget Execution

The execution phase begins with the signing of the budget by the President on the first of March. The fiscal cycle extends from 1 March until 28 February.

The Secretary of the Treasury releases its funds to the DOD on the first of March. The DOD allocates these funds among the Services. The Comptroller of the CNO reallocates the Navy's funds among the functional assistants of the CNO. Figure XXI displays the flow of the Navy's funds.

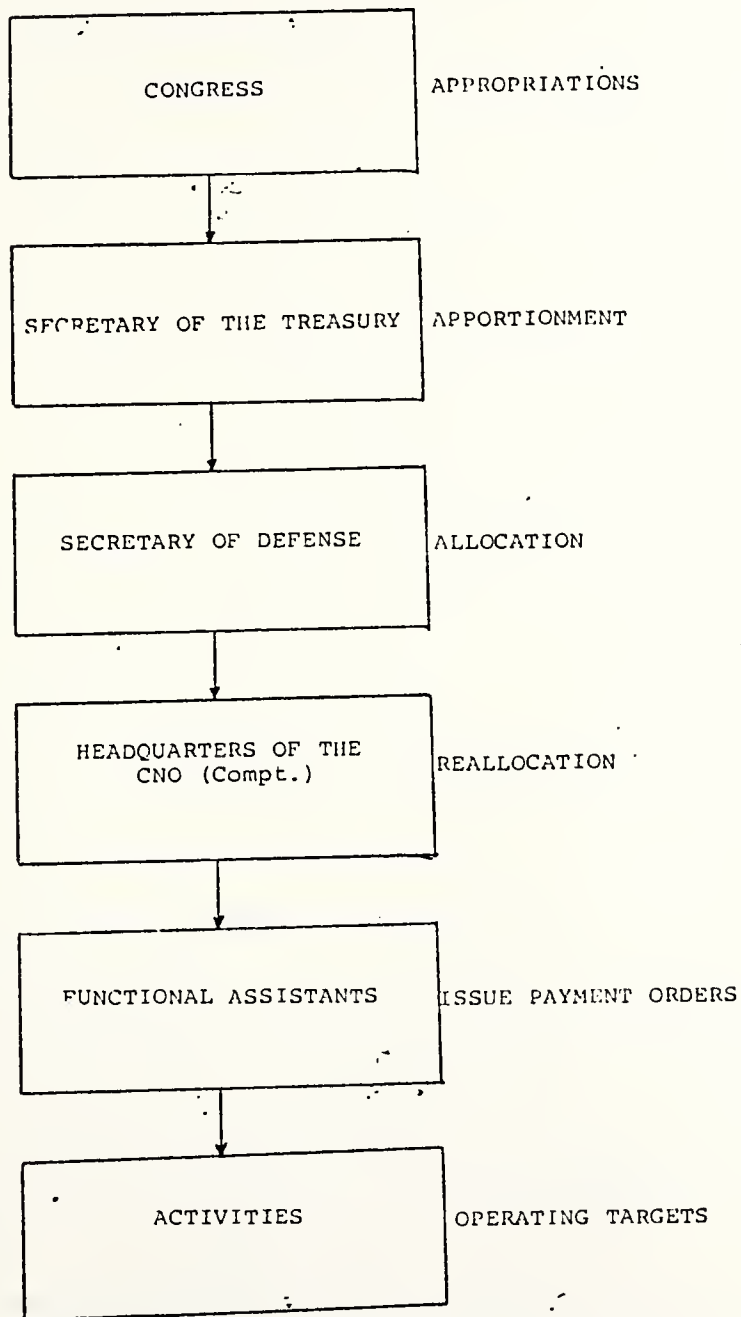


Figure XXI. Flow of Navy Funds

The functional assistants of the CNO reallocate funds to activities by issuing Payment Order Forms. Figure XXII displays a Payment Order Form. A Payment Order Form is prepared with four copies, one is sent to the Office of the Secretary of the Treasury that is located the closest to the activity for cash payment purposes, one is sent to the Office of Accounting for approval purposes, one is sent to the activity, and the other is retained by the functional assistant.

The following items are considered by the functional assistants when issuing Payment Orders.

- The amount of funds requested by the activities in their Work Programs to accomplish their missions.
- A separate Payment Order is required for each type of expenditure specified in the program structure.
- The number of the project must be identified if the funds are for a project.

The Office of Accounting approves the release of funds and sends its copy to the local office of the Secretary of the Treasury nearest the activity. Funds are now available to make commitments or obligations.

The funds of an activity are not released as a lump-sum. Instead, the funds are divided into two six-month portions and released in accordance with the activity's budget and the amounts requested by the activity in its monthly reports to the Headquarters of the CNO.

The Comptroller of the Navy issues an Expense Limitation Order, as a directive of the CNO, that shows the limits

within which activities must make commitments or obligations. Expense limitations are based on the size and functions of the activity.

An activity contracts with other military activities or contractors to obtain necessary services or goods to carry out its missions. After the services have been performed by the contractors, the activity fills out the necessary documents and sends them to the Office of the Secretary of the Treasury that is located in the activity's area. Contractors get their money from this office after a specified time period has elapsed since the services were performed. If the services were performed by other military activities, fund transfers take place from the activity that received the services to the military activity that performed the services.

Each activity must submit monthly reports to the functional assistants of the CNO including a report of the amounts of the commitments made by the activity. Based on these reports the flow of funds is controlled by the Headquarters of the CNO.

The procedure followed and the amounts committed and obligated by the activities are subject to the provisions of two of the laws mentioned earlier, Number 1050, the General Accounting Law, and Number 2490, The Purchasing and Contracting Law.

4. Foreign Aid

Because of the significant amount of foreign aid included in the DOD budget it is appropriate to review the

sources of these funds here. Currently two countries provide military aid to Turkey. These are:

West Germany provides aid called "Military Aid of West Germany." It is given under the name of NATO Aid as equipment and services to the Armed Forces.

The United States provides aid called "Security Assistance." It has been provided since 1947 and falls into two categories.

- Military Assistance that includes
 - Grant Aid
 - Cost Sharing, and
 - Loans
- Foreign Military Sales (FMS)

As an external source of funds, foreign aid plays an important role in the acquisition of DOD equipment.

VI. PROBLEM AREAS, RECOMMENDED SOLUTIONS AND CONCLUSIONS

This chapter is divided into two sections for each Navy. On the first section existing problem areas uncovered in the U.S. Navy and the Turkish Navy budgeting processes are discussed and in the second section recommendations are proposed to solve these problems.

A. PROBLEM AREAS IN THE U.S. NAVY BUDGETING PROCESS

Some problems exist in PPBS implementation at this time. They will be reviewed under two headings: (1) conceptual, and (2) operational.

1. Problems Associated with the PPBS Concept

The meaning of the term "PPB" has not become standardized. To some it suggests no more than a restructuring of budget exhibits; that is, the accumulation of costs in more meaningful categories. To others, the term PPB implies a budget that employs a longer time horizon than that found in a federal budget with a forward projection of only one year. To still others, the concept of PPB includes, in addition to the foregoing, the use of cost-utility analysis to logically measure the relationship of inputs to outputs. Finally, there are those who understand the term to imply all of the foregoing plus one significant addition - arrangements for enforcing allocative decisions through appropriate implementation provisions.

There is broad agreement that the first "P" in PPB is silent. Planning should include the examination of alternative

defense strategies, the analysis of exogenous conditions and trends, threat assessment, and any other tasks associated with looking forward either to anticipate change or to understand the longer-term implications of current choices. Well-done strategy reviews are largely missing; long term trends in international politics, economics, and technology and their influence on defense policies and programs are seldom treated systematically.

2. Operational Problems Associated with PPBS

Support functions account for one-third or more of the defense budget, yet PPB does not subject them to the same type of rigorous scrutiny that it applies to forces and weapons.

PPB is work-intensive. Accordingly, the PPB process tends to crowd out the time and talent necessary for the pursuit of longer term, in-depth analyses that are capable of inventing credible challenges to current practices or systems. Obviously some good analysis is performed, but there is a widespread perception that this amount is insufficient.

A fiscal gap exists between the levels of resources needed to carry out "approved" programs and the actual funding levels that are provided in the budget. For example, in the United States the FY 1979 budget total was \$10 billion lower than the Fiscal Guidance for FY 1979 provided a few months earlier. In other years, the approved

"program has contained deferrals from prior years and other choices which, altogether totaled much more than the amount the DOD budget provided. Such fiscal gaps defer the hard decisions beyond the programming phase to budget time, and set up pressures to unbalance the program as a way of coping with budget cuts in the final stages of budget review effectively wasting much of the year's programming effort. In these circumstances, DOD joins many agencies on the domestic side of the federal government that regularly abdicate their responsibilities for the difficult decisions and pass them along to the OMB by constructing and submitting budgets at totals well above fiscal reality. After some drift in this direction, DOD is now trying to restore defense-self-responsibility for fiscal realism."

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Many participants observe that the same issues are "decided" in the programming phase and then again in the budgeting phase. The initial construct of the allocation process into identifiable phases (i.e., Planning, Programming, Budgeting) was intended to insert a corrective link between planning and budgeting.

The problem with the detailed and voluminous guidance lies in the determination of the proper balance to strike between (1) SECDEF initiatives and the need to harmonize across services and (2) initiatives from the services.

The heart of the feedback problem is the absence of objective performance standards. Program decisions are generally based on a comparison of the estimated capabilities associated with alternative resource allocations. Analyses supporting such decision processes incorporate explicit management goals, scenarios, and support assumptions. However, the PPB system has never had an explicit system for

measuring the progress made toward implementing approved programs.

The record of decisions problem. The system does not differentiate between the total Defense "program" and the program explicitly approved by the SECDEF. Out-year programs reflect a mix of specific SECDEF approvals and service proposals, even though in the United States the Program Decision Memorandum (PDM) approves programs with listed exceptions. There may be utility to keeping a record that distinguishes the out-year resource implications of actual decisions and an explicit planning wedge not yet allocated to specific programs. It could serve to minimize the need for total program review each year - one of the factors that influence the work-intensiveness of the cycle.

The activity cluster problem. The gap that exists between identifying a group of activities as an appropriate cluster for a single program or program element and actually bringing together the information applicable to making a program decision about the activity cluster.

The long-run problem. In the long run there is another possible difficulty that should be considered. The PPB system that includes a mechanism for enforcing central decisions may be conducive to centralization of authority. Looking at trade-offs and inter-dependencies more systematically, making decisions in the light of these trade-offs and relationships, and enforcing these decisions make increased centralization more rewarding or less costly than before implementation of the PPBS.

B. SOLUTIONS RECOMMENDED FOR U.S. NAVY PROBLEM AREAS

These recommendations are based on the material presented thus far in the thesis and that contained in references (25) and (23).

A diversity of arrangements in PPB procedures should be accepted rather than insisting upon a single arrangement that applies uniformly to all programs or all components of programs. A variety of arrangements may be a virtue rather than a defect. Each arrangement should be specifically adapted to the individual situation.

Although a Five-Year Defense Program is supposed to be flexible and provide specific mechanisms for change, it may, in some ways that are obvious, and others that are subtle, make change more costly than before. Whenever commitments should be postponed, it would be better not to record tentative decisions in the official programs. This could be done by leaving an empty place here and there, or by inserting a tentative level of effort but not identifying specific activities.

A "considerable" degree of decision-making authority should be retained at lower levels. What "considerable" decentralization of authority means cannot be precisely defined because it varies according to the situation. The intention should be to keep top level management from being overburdened with minor decisions so that it can focus its attention on major ones, particularly major planning decisions involving interdependencies among departments. The intention

should also be to maintain flexibility by making it simpler to reach certain decisions, make substitutions, and implement resource shifts.

The planning process should be improved to the point that it is more concrete. The planning process should:

- Identify clear options and initiatives, with budgetary impacts for Presidential reviews,
- Serve as a barometer for the determination of the need, if any, for a more fundamental reassessment of national strategy objectives, and
- Perhaps, most fundamentally, produce broad guidance to be used within the DOD.

Recently support capabilities have been improving because of the amount of emphasis placed on readiness, but measures of adequacy and performance standards are either embryonic or nonexistent. A "theory of support" is lacking; wide-ranging support alternatives are seldom pursued. If the overall program is to be both balanced and efficient, support policies and programs must be updated together with defense strategies and force structures.

Many institutional disincentives impede the creation and preservation of a strong analytic capability. The need for good ideas requires, among other things, increasing the volume of high quality analysis, generating more in-cycle concern for how the job is done, and creating incentives for the evaluation of trade-offs.

The DOD often seeks OMB agreement to measures that would minimize disruption of program balance in the final stages of budget review. In effect, approval of such actions would require the President to commit to a budget target far earlier than he otherwise has to, and require the OMB to play its strongest role in the program (vice the budget) review. Since top decision makers (the SECDEF as well as the President) make hard decisions when they have to, or later, but not before, the real Executive Branch decisions are December decisions. The "system" ultimately must serve this proclivity rather than attempt to tame it. The recent modification introducing the Consolidated Guidance may have worsened this problem by providing yet a third major benchmark for decision, even earlier in the year, with its accompanying preparation and review process. These observations suggest a process that would

- Eliminate redundant review, both in terms of the number of separate reviews and their scope.
- Take maximum advantage of the available Presidential and Congressional signals, especially as they may impact on force and fiscal levels.
- Integrate better the efforts within and among organizational layers.

A better feedback system is needed not only to monitor execution but also to make adjustments to past decisions that, in turn, will motivate better execution.

C. PROBLEM AREAS IN THE TURKISH NAVY BUDGETING PROCESS

The PPB process is very new and is not well understood by the people involved in the budgeting process at different organizational levels.

An ambiguity problem exists in the distribution of responsibilities. The degree of responsibility assigned to the different authorities and institutions involved in the budgeting process is not clearly stated. Therefore, the people involved in the PPB process do not know exactly what they must do.

Only a relatively few documents have been promulgated by the DOD to explain the policies and procedures to be followed during the different phases of the PPB cycle. These have been supplemented by orders and directives issued by lower level authorities on a temporary basis. This results in arbitrariness in the context of orders and directives promulgated by subordinate authorities.

The approach used to determine the cost of alternative investments is an incremental one. This procedure is contrary to the essence of the PPB life cycle cost concept. Cost-benefit analysis is not applied to evaluate alternative DOD investments conscientiously. No organization has been established within the DOD to make such analyses. The investment analyses performed by the Planning Organization of the State (POS), in accordance with the Five-Year Development Plan, create problems for the DOD because the unique nature of certain defense problems may not be recognized at the POS level.

The time period of the PPB cycle is not long enough because it does not provide the time necessary to analyze alternative DOD investments.

The extreme centralization that exists in the control of service funds creates some problems. Services do not have sufficient flexibility to effect alternative approaches to solve their problems. They are limited by the firm rules and procedures of the central authority.

In the justification phase of the budget process there is no consistency in the composition of the committee(s) that deal with the Armed Services. During the justification phase, a Budget Committee is established by the Congress to review the budgets of all of the Ministries. The Reporter and other members of the Congress assigned to the DOD for budget justification purposes do not have sufficient experience because of the temporary nature of their mission, and they are not supported by a competent staff to help with the budget review. Therefore, a degree of doubt exists as to how well Congress accomplishes its reviews.

D. SOLUTIONS RECOMMENDED FOR TURKISH NAVY PROBLEM AREAS

The PPB concept should be further developed to make clearer responsibilities and authorities in each phase of the PPB cycle.

As many permanent PPB documents should be promulgated as are necessary to provide a clearer understanding of the PPB concept and of the responsibilities of DOD agencies.

Bureaus should be established to make cost-benefit analyses of alternative investment strategies in the DOD. Appropriate recognition should be granted to the importance of these analyses in accordance with the essence of the PPB process.

PPB analyses should be initiated early enough in the cycle to reach sound decisions.

A balance should be established between the centralization and decentralization of authority which is consistent with the needs of DOD subordinates for flexibility in terms of fund administration.

Permanent Congressional committee(s) should be established for DOD justification purposes. Sufficient staff personnel should be assigned to assist these committee(s) in DOD budget reviews.

F. CONCLUSIONS

This comparative analysis of the budget processes of the U.S. Navy and the Turkish Navy has resulted in the following major findings.

The budget process of each Navy, including the planning, programming, and budgeting phases, was outlined in detail. The PPB processes were found to have both complex and interactive aspects.

The major similarities and differences of each budget process were presented in Chapters III and V. Significant differences exist in the programming structures, the use of the zero-base budget approach versus the incremental budget approach, the budget justification process, and the fund

allocation process. Significant similarities exist with respect to the phases of the budgeting process, the objectives and goals of budgeting, and the formulation phase of the budgeting process.

Both budget processes were found to have weaknesses and strengths. These aspects were presented in Chapter VI, Section A and C. The major strength of the U.S. Navy budget process is that it requires supporting detailed cost-benefit analyses of alternative Navy strategies. This is the essence of the PPB system.

In both Navies, the budgeting process is subject to continual revision and updating. These revisions serve to improve each Navy's ability to respond to changing internal and external factors.

Improvements were recommended which might enhance the effectiveness of the U.S. Navy and the Turkish Navy budget processes. These recommendations were presented in Chapter VI, Section B and D.

This thesis has not attempted to answer all of the questions that might be posed with respect to budgeting effectiveness or improvement. Instead, an effort has been made to make the reader aware of the complexity of the budgeting process, some of the problems associated with the process, and some recommended solutions to these problems. Major areas of concern have been presented which hold interest for future study in both Navies.

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